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February 8, 1982

I am pleased to send greetings to the officers and members of the American Society of Military Comptrollers as you gather for your Annual Professional Development Institute. *File*

The requirements of the Nation demand that we use the resources allocated to our National Security effort as efficiently and economically as possible. Your 8,500 members must continue to take the lead in seeking improvements and innovations in Defense financial management policies and practices.

Your Professional Development Institute can make a substantial contribution by providing an ideal forum for the exchange of ideas and for individual professional growth. You have my best wishes for a successful and professionally fulfilling meeting.

SENT TO:

Mr. Edmund W. Edmonds, Jr.  
Executive Director  
American Society of Military  
Comptrollers  
Post Office Box 91  
Mt. Vernon, Virginia 22121

RR:Livingston:--

cc: K.Osborne/D.Livingston/M.Shortley/CF

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THE WHITE HOUSE

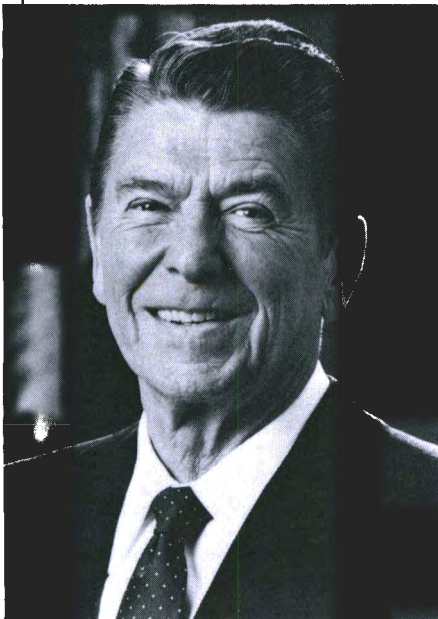
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*Ronald Reagan*



# AMERICAN SOCIETY OF MILITARY COMPTROLLERS

## 1982 PROFESSIONAL DEVELOPMENT INSTITUTE II

***"A Program in Tune with the Times"***

**WEDNESDAY, 19 MAY 1982**

1300-1700

Comptroller Workshop by Service

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- Selected Coast Guard Financial  
Management Subjects

Authority for a Federal Agency to sponsor participation of their employees in training such as our Professional Development Institute is authorized by Section 8 of USC 5, Chapter 41 (Government Employees Training Act, and Federal Personnel Manual Chapter 252.) Participation in PDI has been accepted for continuing Professional Education requirement by certification boards in most states.



THE WHITE HOUSE

WASHINGTON

May 13, 1981

I am delighted to send greetings to the officers and members of the American Society of Military Comptrollers on the occasion of your annual Professional Development Institute.

Your work within the defense community allows you a unique opportunity to lead the way in improved financial management procedures and practices, thus helping the United States to achieve full value for every defense dollar spent. You have my strong support for your efforts to promote the professional development of military and civilian personnel in the field of military comptrollership. I will count on your 7,500 members to play a key role in helping to assure the wisest possible allocation of Defense Department resources.

Best wishes for a successful and professionally rewarding meeting.

*Ronald Reagan*



**Automated Data Process**

Acquisition  
Management of ADP Resources  
Mis-Design  
Training

**Erratic Workload****Military Rotation****Micromanagement****Coordination of Instructions****Local Authority for Expend.**

Maintenance of Real Property  
Local Purch Limits

**Lack of Cost Comparison Studies****Appropriations/Budget Process**

Acquisition Delays  
Budgetary Feedback

**Shelf Life Problem****Work Attitudes****Lack of Work Coordination****Planning & Estimating****Pay/Position Management Issue**

Pay Comparability  
Position Classification  
Position Mgt

**Staffing Issues**

Duplication in Dev of Merit Prom  
Hiring Student Aides  
FLSA  
Traumatic Injury  
Supervisory Appraisal for Promotion

**Employment Restriction**

Employee Ceilings  
Release/Rehiring Temps  
Tech/Managerial Training

**Other Personnel-Related Issues**

Supervisory Responsibility  
Performance Award Program  
Increasing Workload/Program Req.  
Proliferation of Instructions

President Reagan has built the framework for strengthening our economy for reducing inflation and for improving our defense posture. We as organizational entities of the Defense program have little influence on reviving the economy or reducing inflation. But we do have a significant influence on two factors: productivity and fraud, waste and abuse. We've performed the studies; we've identified the problems; we've examined the environment. Now it's time that we take bold, unequivocal steps toward insuring that President Reagan can indeed have an impact.

Our future looks bright. There's a Department of Defense rainbow in the U.S. clouds. I see a healthy funding posture for the 80's. But it rests upon our ability—individually and jointly—to become more productive and to reduce fraud, waste and abuse.

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## LETTER TO THE EDITOR continued

### DR. BLEVINS' COMMENT (condensed by Editor)

Most *Armed Forces Comptroller (AFC)* readers are in the military or are federal civil service employees. The major goal of such personnel may be characterized in language such as: (1) the maximization of military strength per dollar expended or (2) the minimization of dollar cost per standard unit of military strength. The definition of the term "military strength" makes either goal exceedingly difficult to accomplish.

Compounding this problem is the fact that many readers, particularly cost analysis and procurement officers, deal with profit oriented industrial firms. It is the legitimate purpose of such firms to maximize shareholder wealth. This commonly takes form in an attempt to maximize the price of the firm's common stock. The greater the price charged for goods and services sold to the military, the greater the reported earnings per share. The greater the reported earnings per share, other things equal, the greater the value of the firm's common stock. Thus, vendors seek to sell

to the military at the highest possible price, while members of the American Society of Military Comptrollers (ASMC) seek to purchase at the lowest possible price.

Recognizing the adversary relationship of the military and its suppliers, the *AFC* is running a series on vendor decision making. This information is important, not only for pricing various products and services, but also to determine the economic viability of the vendors.

Vendor pricing decisions are not based on the information published in the financial statements. The results reported in the financial statements are based on income flow. The decisions, however, which gave rise to the reported results are based on cash flow. Further, the financial statements may depict a sound financial condition for a vendor who is on the brink of failure. The financial statements are based on income flow, while cash flow is the key element in a firm's survival.





# ARMED FORCES COMPTROLLER

VOLUME 26, NO. 2

SPRING 1981

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# ARMED FORCES COMPTROLLER

THE QUARTERLY PROFESSIONAL JOURNAL OF THE  
AMERICAN SOCIETY OF MILITARY COMPTROLLERS

VOLUME 26, NO. 2

SPRING 1981

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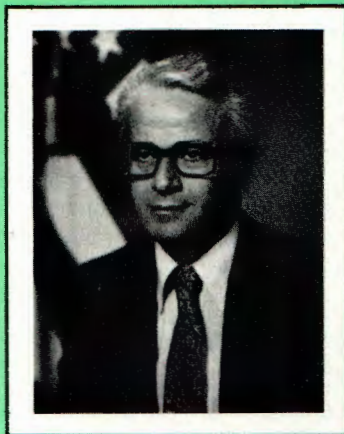
## MANUSCRIPTS SOLICITED

The *Armed Forces Comptroller* invites the submission of manuscripts, book reviews, chapter news stories and pictures from members and others, with emphasis on financial management, resource management and comptrollership including accounting, auditing, budgeting, program evaluation, systems analysis, computer science, economic analysis, cost and other related subjects.

The ideal length of feature articles should be 3-4,000 words, although both longer and shorter articles will be considered. Black and white photos. Double spaced standard bond paper, in duplicate.

Send manuscripts to the EDITOR, ARMED FORCES COMPTROLLER, P.O. Box 91, Mt. Vernon, VA 22121.





Mr E. "Manny" Rosen  
National President, ASMC

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## THE PRESIDENT'S MESSAGE

ALMOST a year ago when I became President of the American Society of Military Comptrollers, I hoped that I could visit as many chapters as possible during my field visits. I'm happy to report that I have visited over one third and have reconfirmed my belief that the comptroller family is made up of some of the finest people in the world.

THE 1981 American Society of Military Comptrollers PROFESSIONAL DEVELOPMENT INSTITUTE is close at hand. This year the program committee, under the excellent leadership of OSD Vice President John Vaughn, Executive Director Ed Edmonds and the members of the St. Louis chapter have worked diligently to ensure that the INSTITUTE continues in the tradition of professional enrichment.

ASMC is a dynamic organization. Our annual meetings represent the largest gathering of people responsible for the financial management policies and their implementation within the Department of Defense and the Coast Guard. Each year we share the many different views that exist in such a large universe as ours.

OUR programs of professional development, individual recognition in all fields of comptrollership, and chapter competition climaxes in a rewarding educational opportunity for everyone.

THE PROFESSIONAL DEVELOPMENT INSTITUTE qualifies under the Education and Training Act as Professional Development Training. I hope that as many as possible can attend. This year special service-oriented workshops on Wednesday afternoon are to be included as a way for individual services to get together and discuss problems and opportunities of specific concern.

AGAIN, I look forward to seeing each of you in St. Louis!

E. "Manny" Rosen  
National President



# COPING WITH SUCCESS

## Tips For Organizing Your Work & Your Life

by Debra J. Stratton

Reprinted with permission from the April 1980 issue of LEADERSHIP. Copyright 1980 by the American Society of Association Executives.

Paper. There are only three things you can do with any piece that happens to come across your desk:

1. You can respond to it by writing a letter, making a phone call, or by taking some other action.
2. You can file it.
3. You can throw it away.

If managing paper is that simple, why is it that your life seems so bound up with paper—stacked on your desk, scattered across the kitchen table, crammed into drawers, files, and cartons, and stuffed into every nook and cranny of your personal and professional life?

Because you haven't learned how to organize paper—and your life.

Most people operate under the mistaken assumption that paper is power, that a cluttered desk is a sign of an active mind, and that climbing to the top requires long hours of burning the midnight oil, say the newest breed of time-management consultants.

You may be moving faster and faster, but are you really getting things done?

### Less is Better

"The secret to doing more is doing less better," says Michael LeBoeuf, University of New Orleans management professor and author of *Working Smart: How to Accomplish More in Half the Time*. In an interview in the *Washington Post* on the essence of time management, Mr. LeBoeuf

points out that working harder or longer is not necessarily the answer to getting more done.

"The only thing you get from keeping your nose to the grindstone is a flat nose," he explains.

He and the growing number of other time-management consultants recommend looking at your own situation and how you operate in order to determine problem areas, priorities, and bottlenecks to productivity.

Ask yourself these questions:

- By the end of an average day, have you failed to complete the most important tasks you had hoped to accomplish?
- Do you suffer from the "Scarlett O'Hara syndrome" of putting off until tomorrow for so long that getting things done becomes a crisis?
- Does it take you forever to find things—letters, reports, keys, files, or whatever?
- Does clutter accumulate everywhere because you can't decide what to do with it?
- Do you defeat yourself daily by setting unreasonable goals?

### The Organizing Principle

Coping with the increasing demands of success doesn't require superhuman abilities; it requires perseverance, patience, and a commitment to organizing your time and your life better, says Stephanie Winston, author of *Getting Organized: The Easy Way to Put Order in Your Life* and founder and director of her own consulting agency, The Organizing Principle.

Her philosophy for learning to cope is simple: There is an organizing principle in everything. Find it, learn to take action according to that principle, and don't regret your decisions.

"Fear is the driving force that causes people to cling to things that have no value to them. Learn to master that fear by making decisions about what has real value for you and what doesn't; then you will be well on your way to getting organized," she advises.

Tackling the big tasks and letting the smaller ones fall by the wayside is also the advice of Michael LeBoeuf. He teaches his clients to learn the importance of saying no, setting your own priorities, and taking action.

"Do first things first, get only the most important things done, don't feel guilty about what you don't do, and take time to smell the roses," he recommends.

Debra J. Stratton is editor and publisher of ASSOCIATION MANAGEMENT and LEADERSHIP magazine, published by the American Society of Association Executives, headquartered in Washington, D.C. She has been with ASAE for five years.

ASSOCIATION MANAGEMENT is the monthly magazine for paid staff executives of trade associations and professional societies. It has a circulation of 12,000. LEADERSHIP, a new quarterly magazine for the elected officers and volunteer officials of nonprofit organizations, has a circulation of 100,000.

At ASAE, she also supervises the Communication Section, which represents more than 1,000 communication specialists in associations throughout the country.

Ms. Stratton received her undergraduate degree in English from Bucknell University, Lewisburg, Pennsylvania, and her master of journalism degree from the University of Maryland, College Park.





## Time is Life

While their advice includes nothing really new in the way of time management, more and more executives are learning to live by some of these common-sense practices as a means of better balancing the responsibilities of work and home and the added demands of leadership positions in outside organizations and associations. Their advice can help you learn how to cope better with the added responsibilities and deadlines that accompany success.

Three elements are needed for getting organized, says Stephanie Winston:

1. A physical environment that is easy to move around in.
2. A simple technique for dealing effectively with the volume of paperwork and business that we all must confront.
3. The development of a satisfying response to the fact that time is life, time is money, and time is limited.

## List Six Things to Organize

In her book, *Getting Organized*, Ms. Winston offers a three-step plan for turning chaos into order: Begin by buying yourself a small notebook that you can carry around with you. In it, list the six things in your life that need to be put in order. Realize that your personal life overlaps into your work life; look at the two together. But don't become overwhelmed by the size of the problem; every situation can be organized, Ms. Winston argues, and the personal satisfaction you get from finding that order will be well worth the effort.

To identify the six areas that cause you the most trouble, go through your daily routine, from the time you get up in the morning until you go to bed. What are the rough spots? Where does the tension build? What are the problem areas? List them.

## Systems That Don't Work

Then divide complex problems on your list into more manageable units. These problems can usually be divided into two categories: problems involving physical areas, such as a messy closet or desk drawer, and problems with a process or system for doing something, such as your system for getting out of the house in the morning or your system for handling the mail.

Run through the process or system in your mind, and write down the difficult areas.

Finally, on a scale of one to 10, rank each of the six items on your list according to how much it irritates you.

Now you have a plan of action, a list of the areas to concentrate on. Work at smoothing out the rough spots and getting organized. Set aside some time each week to work on these. If you have a tendency to overlook things, schedule an appointment with yourself so that you are sure to devote time to yourself.

Concentrate on no more than six items at a time. Once you have mastered them, go on to other areas that need attention.

## Problems with Paper

One of the six items on your list is sure to involve paper—whether it's your process for paying bills, filing correspondence, or answering mail. Don't let paper overwhelm you; look at it as a means by which you can carry out your business and personal life—not as an end in itself, suggests Stephanie Winston. Develop a process by which you can better manage paper—and your life.

For example, in handling your daily mail, Ms. Winston offers this procedure for a smoother effort: Let your secretary open all correspondence addressed to you, and let him or her become familiar with it. Before bringing any of it to you, your secretary should collect any supporting material you may need to evaluate or respond to the mail.

Then as your secretary hands you each piece of mail, don't put it down until you have read it, evaluated it, and told your secretary what to do with it, such as "Write this to him," "Acknowledge this invitation," and so on until you've finished.

More than three quarters of the paper that comes across your desk is routine matter. It doesn't require deep thought and complicated judgment. It can be handled right on the spot, without cluttering up your desk.

When in doubt, throw it out. Don't agonize over it. Your personal satisfaction in knowing you have taken care of something is much more important than the few times you will wish you still had the item.

At the end of each day, organize your desk for the next day. Divide the remaining papers into piles of those you still need to act on, those that need to be filed, and those that need to be tossed. Make a decision on every piece of paper before you leave.

## Importance of a Calendar

If another problem area is your tendency to miss important dates, deadlines, and appointments, it may be that your calendar isn't functioning as it should. Your calendar is the single most important tool for organizing your time, says time-management expert John Lee, president of Hour Power in Crawfordville, Florida. To be really effective, he says, executives have to organize their work around their calendar, not around their desks as most executives do.

You should always be able to see your calendar, and it should be close enough to your telephone and in-basket that you can jot down important dates. Putting it behind your desk is a waste of time; you spend more time spinning around, says John Lee, than really getting things done.

He believes so strongly in the importance of a calendar that he has designed and copyrighted his own 16-month calendar for executives. Its prominence in his time-management philosophy is evident from its size: 4 feet long by 3 feet wide. It runs from January through March of the following year, and unlike conventional calendars that tend to be too small to really use, says Mr. Lee, his calendar lists months in horizontal rows, with one month on top of another. January is at the bottom, February on the next row, and so on.



This encourages using calendars as building blocks to better management, says John Lee. He asks executives to find patterns in their monthly or weekly schedules and to take advantage of those patterns as a way of reducing the wasted time of doing the same thing over and over again.

## Pointers for Success

Here are a few other pointers from Stephanie Winston for organizing your work and life to be a more productive person:

**1. Understand your biological clock.** Determine when you are most productive in getting your work accomplished; tackle your toughest problems at those times of day. At times when you are not quite at your peak but still fairly alert, handle routine tasks like returning phone messages, attending meetings, and handling correspondence. During your low times, plan for the next day, sign mail, or catch up on some of your reading.

**2. Don't try to conquer everything in one day.** Set aside time each day to work on a major project or whittle down a stack of accumulated reading materials.

**3. Use professional services to make the most of your time.** Don't spend time waiting in line for theatre tickets, plane tickets, or doing errands that special services can handle. Take advantage of some of the newer service companies that will run to the post office, the cleaners, and the grocery store for you or sit at home and wait for furniture to be delivered.

**4. Don't let perfectionism stand in the way of organization.** If you find yourself procrastinating and avoiding a certain project, hire someone else to do it.

**5. Double-up on tasks.** Sign mail while you are talking on the phone; clean out your desk drawer while returning phone messages.

**6. Organize your day around three things: a day-to-day appointment calendar, a pocket-size spiral notebook for notes and reminders, and a daily to-do list.** Make your list specific and limited. Put items in order of importance. If you find some things are continually on the list and never get done, eliminate them. You probably are not going to get them done anyway, so why worry about them?

**7. Make the most of short bits of time.** Take reading with you for airport layovers; make out your grocery list while watching the nightly news.

**8. Use new technology.** There are many new devices that can save you time, such as no-iron shirts, self-cleaning ovens, microwave ovens, and so forth. Use them.

**9. Develop a filing system that you understand; then stick to it.** Most people are afraid to file things for fear they will never be able to find them again. Develop a system that you understand; then each time you go to a file, leaf through it and weed out papers that are no longer needed.

**10. Believe in the organizing principle.** The rewards of becoming organized will be increased productivity, better performance, and the peace of mind that comes with order.



## AMERICAN SOCIETY OF MILITARY COMPTROLLERS CHAPTER PRESIDENTS



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# CAPITAL BUDGETING: A CRITICAL ELEMENT OF AN ECONOMIC ANALYSIS

by

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## Why Should A Working Comptroller Be Concerned With The Capital Budgeting Process?

The acquisition and replacement of tangible capital assets, such as facilities and equipment, is vital to the long-run profitability of all manufacturing and all merchandising firms. The profit motive dictates that considerable attention must be paid to the capital budget portion of an organization's master budget. It is integral to a complete financial plan. But why should the public sector comptroller be concerned with the capital budget process, especially when he or she is limited to discretionary use of operation and maintenance dollar resources? The answer lies in the position description of the comptroller function—that of senior financial advisor to the commander or to top management. Every organization makes major acquisitions with investment or procurement dollars and the comptroller should be able to provide the technical expertise in the development of a required cost-benefit analysis. This "dollar and sense" procedure is used to quantify the benefits of various alternatives, which are usually mutually exclusive. If one accepts the fact that the comptroller should have at least a working knowledge of capital budgeting techniques, then an elementary review of the procedures is in order.

## How Does Capital Budgeting Fit Into An Economic Analysis?

The economic analysis process is a systematic review of alternative choices to satisfy a specific objective. When examining these choices, a number of assumptions will probably be made relative to benefits to be derived. The benefits may be readily quantifiable and subject to the ap-

plication of capital budgeting techniques. Although this is the main theme of this review, one must recognize that capital budgeting is just one part of the overall economic analysis process. The actual acquisition decision should include consideration of cost, the quantifiable and non-quantifiable benefits and any uncertainties. The comptroller's expertise in the development of a cost-benefit analysis will prove invaluable to the final decisions made by management.

## What Are Typical Capital Budgeting Decisions?

Included among the decisions management will make that involve capital budgeting are:

1. Plant and facility expansion.
2. Equipment selection and replacement.
3. Cost reductions resulting from capital equipment acquisition.
4. Lease/buy options.

The last category can be critical to the public sector comptroller with access to both investment (procurement) and expense (O and M) dollars.

## Capital Budgeting Techniques—An Overview

A concept that is integral to the cost-benefit procedures to be discussed is the recognition of the "time value of money". The concept recognizes that both receipts and outlays associated with a major acquisition will occur over the life of the asset. There are capital budgeting techniques commonly used that do not consider the time value of money but are useful in determining the risk involved in the investment. These are the:

1. Payback Period
2. Simple Rate of Return

As an example of payback analysis, consider an asset that costs \$100,000 to acquire and promise to return \$25,000 a year for five years, which is its life expectancy. The constant annual return is called an "annuity" and is divided into the value of the asset to return a factor of four. This factor is the Payback Period and simply states that in four years, the projected annuity will repay the investor the original amount paid for the asset. The Simple Rate of Return is an annual percentage factor computed by dividing the value of the asset into net operating income for the year. If an asset valued at \$100,000 is acquired and results in an increase in net operating income of \$10,000, the Simple Rate of Return is computed to be 10%.

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Of more importance to the financial manager are those capital budgeting techniques that consider the time value of money. These techniques "discount" all future receipts and outlays associated with the asset to be acquired to its Present Value as expressed in dollars. Discounting requires the use of an interest rate to discount future alternative costs to present values. All public sector investments spend tax revenue and no public investment should earn less of a return than alternate uses for the funds. The techniques that consider the time value of money fall into two categories: those used for *screening* the investment for profitability, and those that rank all profitable investments by *preference* of selection. These techniques assume that all investment alternatives will have estimated receipts (case inflows) and outlays (cost outflows). Many investment decisions made in the public sector are based on "least-cost" because expected benefits cannot be quantified into estimated dollar receipts. These investment alternatives should also consider the time value of money and should be ranked based on least-cost to the organization.

1. **SCREENING DECISIONS.** The techniques used to determine the profitability of an investment include:

- a. Present Value
- b. Net Present Value
- c. Discounted Rate of Return (time adjusted rate of return)

A. **Present Value.** The concept of present value allows the analyst to express estimated "future dollars" in terms of today's present dollar. It is based on a determined "average cost of capital". This means that the cost of all sources of capital are averaged to determine a percentage cost of money. This average cost of capital provides a "benchmark" for use in determining profitability. For example, if the average cost of capital is 10%, management may set 10% as the profitability hurdle and all investments will be discounted by this benchmark. If the result of the analysis is a negative present value, the investment should be rejected as unprofitable.

The Secretary of Defense has established 10% as the applicable discount factor for use in the analyses of proposed Defense investments. The present value discount factors for 10% are shown in Tables 1 and 2. Table 1 is the present value of \$1 as expressed in each year of the proposed life expectancy of the investment. Table 2 is the present value of an annuity, again based on the proposed life expectancy of the investment. The only difference in the use of the tables is in the nature of the cash flow. An uneven cash flow, such as: Year 1—\$100; Year 2—\$50, etc. requires use of the factors in Table 1. If the cash flow is the same each period (an annuity), the factors in Table 2 may be used. Note that the 10% discount factor for Year 2 is 1.821 which is the sum of Year 1, 0.954 and Year 2, 0.867. The factors in Tables 1 and 2 are a result of continuous compounding, rather than compounding at the end of a specific period. For example, if the present value of \$1 at 10% for 1 year was desired from a table that had factors compounded annually, the result would be 0.90909 rather than 0.954. For purposes of uniformity, all illustrations in this discussion use the DOD present value factors.

**Table 1: Present Value of \$1 at 10%**

Project Year	Present Value
1	0.954
2	0.867
3	0.788
4	0.717
5	0.652
6	0.592
7	0.538
8	0.489
9	0.445
10	0.405
11	0.368
12	0.334
13	0.304
14	0.276
15	0.251
16	0.228
17	0.208
18	0.189
19	0.172
20	0.156
21	0.142
22	0.129
23	0.117
24	0.107
25	0.097

Source: DOD Economic Analysis Handbook

**Table 2: Present Value of an Annuity at 10%**

Project Year	Present Value
1	0.954
2	1.821
3	2.609
4	3.326
5	3.978
6	4.570
7	5.108
8	5.597
9	6.042
10	6.447
11	6.815
12	7.149
13	7.453
14	7.729
15	7.980
16	8.208
17	8.416
18	8.605
19	8.777
20	8.933
21	9.075
22	9.204
23	9.321
24	9.428
25	9.525

Source: DOD Economic Analysis Handbook



As an example of how present value is computed, assume that an organization is considering the purchase of an item of equipment that costs \$100,000 and it is willing to pay for the asset today with expected cost savings over the five-year life expectancy projected at:

Year 1 —	\$35,000
Year 2 —	25,000
Year 3 —	20,000
Year 4 —	15,000
Year 5 —	10,000

The payback period is five years and total cost savings is \$105,000, which, considering risk is a relatively short period of time for the asset to pay for itself and generate a "profit". However, is the asset really profitable? One must recognize the time value of money through discounting of these future values to determine profitability. This is present value analysis and is done as follows:

Year	Cash Flow	× 10% Factor	= Present Value
1	\$ 35,000	0.954	\$33,390
2	25,000	0.867	21,675
3	20,000	0.788	15,760
4	15,000	0.717	10,755
5	10,000	0.652	6,520
	<u>\$105,000</u>		<u>\$88,100</u>

The result clearly shows that the proposed investment is not profitable because it fails to return the original investment over the life expectancy of the asset. For another application of present value analysis, consider an asset that costs \$100,000 today and projects an annual cost savings of \$25,000 per year for the five-year life of the investment. The payback period is four years and the total savings are projected at \$125,000. Again, from a risk standpoint, four years is not long for an asset to pay for itself. However, the projected annuity should be discounted at the 10% five year annuity factor from Table 2, 3.978. The result, \$99,450 ( $25,000 \times 3.978$ ) proves that the investment is not profitable and should be rejected.

**B. Net Present Value.** Net present value is defined as the residual of present value of the budgeted receipts less the present value of the budgeted outlays. If the result is greater than zero, the investment alternative is considered to have passed the profitability screening hurdle. As an example, consider the following factors relevant to the acquisition of a new word-processing machine:

**Outlays:**

- Acquisition Cost — \$20,000
- Annual Maintenance Cost — \$1,000
- Annual Supplies Cost — \$1,000

**Receipts:**

- Annual Cost Savings — \$6,000
- Salvage Value — \$2,000

**Life Expectancy:** 8 years

**Average Cost of Capital:** 10%

Item	Cash Flow	× (10%-8 Yrs)	= Present Value
Cost Savings	\$6,000	5.597	\$33,582
Salvage Value	\$2,000	0.489	978
			<u>\$34,560</u>

**Outlays**

Acquisition Cost	\$20,000	—	\$20,000
Annual Maintenance Cost	\$ 1,000	5.597	5,597
Annual Supplies Cost	\$ 1,000	5.597	5,597
			<u>\$31,194</u>

Net Present Value = \$ 3,366

Because the net present value is positive, the acquisition of the word-processing machine is projected to be profitable. If there was more than one word processor under consideration, they are "mutually exclusive alternatives" and the same analysis would be done on all the alternatives. The word processor with the highest net present value would be the preferred choice. Other preference techniques can be used and will be highlighted.

**C. Discounted Rate of Return.** This technique does not analyze all the relevant cost flows as is done in present value analysis. It is limited to the acquisition cost of the asset and the projected annual return. However, it does provide a discounted percent factor which is compared to the average cost of capital to measure profitability. For example, the word processor costs \$20,000 to acquire with a projected cost savings annuity of \$6,000 per year for 8 years. There are two steps in computing the discounted rate of return:

**Step 1:**

$$\frac{\text{Cost of the asset}}{\text{Annuity}} = \frac{\$20,000}{6,000} = 3.333$$

**Step 2.**

The factor 3.333 is converted to a percent from a present value table of annuities based on the life expectancy of the asset, in this example 8 years. The discounted rate of return is approximately 25% which is greater than the average cost of capital, 10% which means it is profitable. Note also that the factor 3.333 is the payback period, i.e.,  $3\frac{1}{3}$  years.

**2. PREFERENCE DECISION.** Once an investment is determined to be profitable it should be ranked with competing investments relative to preference, i.e., which is the best alternative. The techniques that are used for making the alternatives are:

- a. Net Present Value
- b. Discounted Rate of Return
- c. Present Value Index
- d. Uniform Annual Amount



Because the techniques of net present value and discounted rate of return have been covered previously, this section will address only the last two methods.

a. **Present Value Index.** Sometimes referred to as the profitability index, this technique has two advantages:

(1) It considers varying life expectancies of mutually exclusive alternatives and, (2) It neutralizes the advantage of larger dollar cash flows of high value alternatives. The present value index is computed by dividing the present value of budgeted outlays into the present value of budget receipts. Assuming all the alternatives compared have passed the profitability hurdle, the resulting index numbers are ranked with the highest being the preferred alternative. To illustrate the computation of the present value index, the present value of the receipts expected from the acquisition of the word processor, \$34,560 are divided by the present value of the outlays, \$31,194 with a resulting present value index of 1.108.

b. **Uniform Annual Amount.** The final method of preference ranking is used to reduce the net present value of mutually exclusive alternatives with varying life expectancies to a comparable annual amount. Using the word processing example, the net present value, \$3,366 would be divided by the present value factor for 8 years at 10%. The result, \$601.39, is compared to all other alternatives with different life expectancies after a similar adjustment of their net present value.

3. **THE TAX RATE AND DEPRECIATION.** Although capital budgeting techniques applied to proposed public sector acquisition are not concerned, as a result, with the prevailing tax rate and with the depreciation of the asset, these are prime considerations in private sector analyses. The financial manager in the private sector must consider the prevailing tax rate and apply the residual of the tax rate, i.e. (1.00—tax rate), to all affected cash flows prior to discounting these cash flows to their present value. For example, a projected annuity of \$6,000 for 8 years with a prevailing tax rate of 40% would mean that the \$6,000 cash flow is reduced to \$3,600 per year (\$6,000 × 60%) and then discounted.

Depreciation is not a cash flow but a "noncash expense", which means that by depreciating the asset over its life expectancy, additional cash is available to the organization. The amount the asset is depreciated annually is a function of the method of depreciation selected. This annual amount is multiplied times the prevailing tax rate and the result is treated as a cash receipt to the organization and then discounted to its present value. For example, if the straight-line depreciation method is applied to the acquisition cost of the word processor, \$20,000 is divided by 8 and the result, \$2,500 is multiplied by the prevailing tax rate, assuming 40%, to provide a cash receipt of \$1,000 annually to be discounted. This analysis assumes no salvage value, which if present, is subtracted from the value of the asset prior to depreciation.

4. **LEAST COST ANALYSIS.** As mentioned earlier, many public sector financial managers are faced with investment alternatives with quantifiable costs and little or no quantifiable benefit or savings. In this situation, discounting still applies but the resulting analysis causes a recommendation on acquisition based on the least-cost alternative. For example, assume that the hospital at the local military base must replace its X-ray machine and has three models under consideration. All three machines produce an acceptable product but each has different factors applicable to them, as follows:

Factors	Model A	Model B	Model C
Acquisition Cost	\$240,000	\$360,000	\$500,000
Life expectancy	4 years	8 years	12 years
Estimated Salvage Value	\$ 20,000	\$ 40,000	\$ 25,000
Annual Operating Cost	\$ 50,000	\$ 44,000	\$ 38,000

Assuming that the hospital will be in operation for the next 12 years, all models of the X-ray machine are considered in the following analysis:

Factors	Model A	Model B	Model C
1. Acquisition Cost	\$240,000	\$360,000	\$500,000
2. Estimated Salvage Value	20,000	40,000	25,000
3. Multiply by the Present Value Factor at 10% (Table 1)	0.717	0.489	0.334
4. Present Value of the Salvage Value	\$ 14,340	\$ 19,560	\$ 8,350
5. Net Investment (1-4)	\$225,660	\$340,440	\$491,650
6. Divide by P.V. Factor at 10% (Table 2)	3.326	5.597	7.149
7. Equivalent Annual Investment Cost	\$ 67,847	\$ 60,825	\$ 68,791
8. Add: Annual Operating Cost	\$ 50,000	\$ 44,000	\$ 38,000
9. Equivalent Annual Amount	\$117,847	\$104,825	\$106,791

The procedure outlined above is a simple, yet valid analysis of alternative, which should result in a recommendation to management that Model B be selected because it has the least equivalent annual cost.

## Summary Thoughts on Capital Budgeting

The contemporary emphasis on asset acquisition dictates a complete economic analysis be accomplished prior to investment. The financial manager must be comfortable with the basic capital budgeting techniques to ensure a meaningful and accurate cost-benefit analysis is completed as a major portion of the economic analysis. This primer has outlined these techniques and, hopefully, has stimulated the financial manager to become aware of their application. Remember, we are in a unique place of trust. As public financial managers we can help ensure maximum benefit from our investments at the least possible cost to the taxpayer.



# THE HOURLY PER DIEM SYSTEM

by

**Colonel Jimie Kusel, USAF**

You have just received reimbursement for the temporary duty performed last week away from your home station. Glancing down at the last line on your copy of the travel voucher, you note that the payment will be \$368.12. Eager to verify the accuracy of this entitlement, you review the computations on the form and note, among other things, a strange mixture of daily rounding that seems to conceal specific per diem and lodging entitlements. You also note that there are deductions that have been made for meals applicable to periods of time both before and after the trip.

Confused by these computations and unable to sort out your specific entitlements, you visit the local accounting and finance office and seek an explanation. The accounting clerk apologizes for the confusion but quickly points out that the "black box" figures are the result of computational methods specified in what is called a Joint Travel Regulation and that this method has been used as long as can be recalled. The clerk sympathizes with your lack of understanding of the methodology and confesses that it is even difficult for the experienced clerk to ensure an accurate computation. You leave the accounting office somewhat resigned to a fate of simply accepting the accuracy of that bottom line figure on future travel vouchers, but not at all convinced that there isn't a better way.

If you can identify with this scenario, you are probably in the vast majority of armed forces personnel who have performed temporary duty away from their home station. There are presently, however, several initiatives underway any one of which promises some hope that the traveler of the future may understand how specific entitlements were computed. Two of the most prominent initiatives are called the flat rate per diem system and the hourly per diem system.

## The Two Proposed Systems

The flat rate per diem system is perhaps the easiest to understand. Under that system the traveler would be paid a lump sum amount per day, say \$50. It would be the responsibility of the traveler to secure both food and lodging within that amount. A major criticism of this system is

its increased overall cost to the armed services. Presently within the continental United States, the normal temporary duty entitlement per day totals \$50. That amount is subdivided into \$23 for food and incidentals and \$27 for lodging. When a traveler stays at an Air Force base while performing temporary duty, as a vast majority do, then, only the daily base quarters charge of approximately \$4 may be collected by the traveler from the total daily entitlement of \$27. The flat rate proposal, presumably, would provide the traveler the full \$27 regardless of the actual charge for quarters. Thus, the flat rate system becomes more expensive.

The hourly per diem system, not as simple as the flat rate approach, provides a great deal of simplification to the travel computational process while providing the ability to maintain armed service cost at present levels. Indeed, as we shall see, the system is ideally structured to permit central management of total travel costs. It parallels the system that has been used successfully by the major commercial airlines for many years.

While the flat rate proposals remain in current discussion, the Air Force is testing the hourly per diem system for the armed services. If the hourly system is adopted, it will represent the first major departure from the current system of computation in more than twenty years.

## The Basic Questions

There is a natural question that arises after all of these years of enduring the cumbersome manner in which per diem entitlements have been computed. What is creating the urgency to change now? And, the more suspicious in nature may wonder if the hourly per diem system will somehow reduce the compensation provided to each traveler. As we shall see, events that have evolved over the past several years make a change to the present computational system compelling. And, as we shall also see, test results indicate that both the traveler and the clerk who must compute the travel entitlement have the highest of praise for the fairness and simplicity in the new system.

But that is the end of the story. What specifically motivates the current quest for change? How does the hourly per diem system work? What are the results of the Air Force test? For these and other answers, we must start at the beginning.

## The Problem

There are two sides to the travel counter in an accounting and finance office. On the one side stands the traveler armed with a multitude of documents evidencing a trip just completed. On the other side is the accounting and finance clerk who must translate your documents into

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specific dollar entitlements. The frustration of the traveler in understanding the resultant dollar entitlements has been touched upon and undoubtedly has persisted since the inception of the current system many years ago. That in itself is cause for change and is a definite part of the problem, but it is the other side of the counter that is creating the new wave of concern.

The concern for the accounting and finance clerk will be illustrated drawing upon Air Force experience, and more specifically, experience within the Military Airlift Command. Since it was that experience that convinced that Air Force Accounting and Finance Center to sponsor the hourly per diem approach with the joint service Per Diem, Transportation, and Travel Allowance Committee, it can be assumed that the Military Airlift Command experience is applicable to the remainder of the Air Force. And, since this joint service committee unanimously approved the test, one can assume that similar findings may exist in one or more of the other services.

Stated simply, the experience level of the travel accounting clerk has markedly declined. There are two primary contributing factors within the Military Airlift Command. The inability of the Air Force to fund the grade requirements recognized as needed by manpower standards to do the work together with the action by the personnel system to restrict skill levels from three to two grades has cut in half the small number of top level travel supervisors while almost doubling the already large number of entry level clerks. These people are bright and, for the most part, have performed as well as can be expected. But when dealing with the Joint Travel Regulation, a document some lawyers may find difficult to follow, there is no substitute for experience. Indeed, a survey of the fourteen Military Airlift Command bases disclosed that the most significant problem within the travel section of the accounting and finance office was a lack of experience.

## Computations—The Present System

To understand the issues, allow me to provide the simplified layman's explanation of how the "black box" daily rate of reimbursement for the traveler is determined. Assume an officer traveler makes the following simple temporary duty (TDY) trip:

Day		Time	Mode
1	Depart home station	1300	Government airplane
1	Arrive TDY point	1830	
3	Depart TDY point	1230	Government airplane
3	Arrive home station	1800	

Further assume an actual total cost of lodging for two nights of \$8.00, a daily per diem rate of \$50, and that government mess is not available at the TDY point.

The travel accounting clerk must first determine a daily entitlement rate for the traveler. This daily entitlement rate will be the same amount each day regardless of the fact that only one full day and two partial days were used on the TDY. As a first step, the total cost of lodging is divided by the total number of days and partial days away from the home station. In this case, the total lodging cost of \$8.00 is divided by 3 days providing a result of \$2.67 per day.

Unless the amount is an even dollar, the daily lodging cost must always be rounded up to the next highest dollar, in this case to \$3.00. This three dollars represents the daily lodging entitlement. To this is added that portion of the original \$50.00 daily per diem rate that is available for food and incidentals. Recall that that total is \$23.00 as explained above. Adding the food and incidental portion of the daily per diem rate (\$23.00) to the computed lodging entitlement (\$3.00) provides the daily entitlement of \$26.00. The black box is completed. The traveler can observe a \$26.00 daily rate, but the method of arriving at that total is usually not shown. If an error has been made, the uninformed traveler will likely not find it.

The complexities of computation do not stop with the determination of the daily rate. From the daily entitlement of \$26.00, certain deductions must be made for each of the two partial days away from the home station. From day 1 the travel clerk will subtract from the total daily rate that portion intended to buy food for the breakfast and lunch meals. Recall that the traveler should have had these meals at the home station prior to departure. Since the amount made available to the traveler is \$6.50 per meal, a deduction of \$13.00 (2 x \$6.50) must be made, leaving a residual balance of \$13.00 (\$26.00 - \$13.00). For day 3 the traveler returned to the home station in time for the evening meal. Therefore, the amount due the traveler for the third day for food and incidentals is \$26.00 less \$6.50 or \$19.50. In summary, the total per diem entitlement is:

Day 1	\$13.00
Day 2	26.00
Day 3	19.50
	<u>\$58.00</u>

To this total must be separately added any identified reimbursable expenses such as rental car, taxi, mileage, etc.

The computation becomes even more complex with such items as a change in the classification of traveler (officer to enlisted) and trips that involve more than one established per diem rate. But from the very simple trip used in the above illustration, the complexities are already evident.

## Approach to the Hourly System

A question that may be raised by the traveler is why should one involve in the computation those portions of the day in which the traveler is at the home station; i.e., the morning of the first day and the evening of the third day in the illustration. An hourly approach to the determination of entitlements for food and incidentals provides a means to ignore portions of the day at the home station.

To illustrate this approach, assume the same trip as above. The \$50.00 daily per diem rate remains portioned \$23.00 for food and incidentals and \$27.00 for lodging. Spreading the \$23.00 entitlement over the 24 hour day, the hourly entitlement is \$23.00 divided by 24, or \$.95 per hour rounded down so that total entitlement does not exceed \$23.00. The lodging entitlement will remain the same, averaging \$2.67 per day, again rounded up to \$3.00 to remain comparable with the example above. The traveler was away from his home station 11 hours in day 1, 24 hours in



day 2, and 18 hours in day 3. Now the entitlements can be computed as follows:

Day 1	11 hours x \$.95 =	\$10.45	
	Lodging	3.00	\$13.45
Day 2	24 hours x \$.95 =	23.00	
	Lodging	3.00	26.00
Day 3	18 hours x \$.95 =	17.10	
	Lodging	3.00	20.10
			<u>\$59.55</u>

Note that once again we have developed a daily black-box. The one great advantage is that the total entitlement is approached directly without consideration for those portions of the day not included in the trip. Deductions for meals available at the home station in days 1 and 3 are not necessary. Computational steps are thus eliminated. Each full day, such as day 2, results in the same entitlement as was computed using the current method. The slight difference in total entitlement of \$1.05 (\$59.55 hourly approach — \$58.50 current method) is caused by the portion of the day the hourly trip starts and stops.

## The Hourly System

The final step in the development of the hourly system is to eliminate the daily "black box" in which entitlements for food and incidentals are combined with lodging and displayed on the travel voucher as a single amount. The traveler was away from the home station a total of 53 hours (Day 1: 11 hours + Day 2: 24 hours + Day 3: 18 hours). Under the hourly system, the traveler's entitlement will be computed and displayed somewhat as follows:

<i>Food and incidentals</i>	
53 hours x \$.95 rate	= \$50.35
<i>Lodging</i>	
Actual payment (limited by entitlement explained below)	= 8.00
	<u>\$58.35</u>

Note the difference in treatment of lodging cost. Since under the hourly system we no longer view the trip in terms of individual days but as the totality of hours, lodging reimbursement is limited by actual payments not to exceed total entitlements over the entire trip.

Perhaps we should digress at this point momentarily to briefly address this change of paying the traveler the actual cost of lodging rather than the average cost of lodging. It is indisputable that the actual cost approach is simpler for the accounting clerk in forming the computation and easier for the traveler to understand. However, it has been argued by some that a traveler given certain trip scenarios could receive less lodging reimbursement using the actual cost approach rather than the average cost approach.

For TDY trips made to areas in which the TDY rate is constant, the argument is without substance. Virtually the same lodging reimbursement is paid to the traveler under each system. Where, however, the traveler visits areas in which the lodging entitlement changes, some argue that the average cost of lodging by location is essential to assure that the traveler does not lose entitlements. Suffice

it here to say that this argument has substance when the daily approach to computing per diem payment is used (the current system). When, however, the trip is considered as an entity of, say, 53 hours (our example) rather than three small sub entities composed of 2 partial days and one full day, the argument loses substance. The traveler will be reimbursed full lodging costs limited only by the maximum entitlement authorized over the complete trip.

The lodging on a stateside trip involving a \$50.00 per diem rate is nothing more than the actual cost of the traveler's lodging limited by the daily entitlement rate of \$27.00 times the number of nights lodging was required. In our example, the actual lodging cost of \$8.00 is far less than the total \$54.00 (2 nights x \$27.00 per night) possible entitlement. The traveler is thus paid \$8.00, the actual out-of-pocket expense.

The difference for this trip between the present computational method and the hourly system is \$.15 (\$58.50 — \$58.35). Depending upon the trip scenario (i.e., actual hours of departure or return), a very minor difference may exist one way or the other. But the advantages of the hourly system are many.

### Advantages for the traveler include:

- The daily "black box" is gone, the entitlements for food and incidentals and for lodging are clearly in evidence.
- The traveler can compute his own entitlements using the hourly rate, thus checking the computations by the travel clerk.

### Advantages for the travel clerk include:

- A simplified system eliminating the need to make deductions for portions of the day not included in the trip.
- A layout of information conducive to reducing computational errors and time.

### Advantages for central management include:

- Unlike the flat rate approach, the total cost of per diem can continue to be effectively controlled.
- The per diem components for food and incidentals and for lodging can be separately considered by economic area.

The hourly system is equally applicable for trips which involve changes in locations that involve different per diem rates such as those experienced in overseas areas. The number of hours applicable to each rate may be separately identified and the resulting calculations totaled. For enlisted personnel a third section identifying deductions for available government meals would be used.

## An Initial Review

The hourly per diem system as developed within the Military Airlift Command was reviewed and initially tested at the Air Force Accounting and Finance Center in late 1979. Approximately 700 old travel vouchers detailing TDY trips made in the past by Air Force personnel were selected. Five experienced travel clerks were required to compute the travel entitlements for the 700 trips two ways. The first calculation involved present computational methods with which they were familiar. After approximately 45 minutes of instruction, the clerks were required

*Continued on page 27*

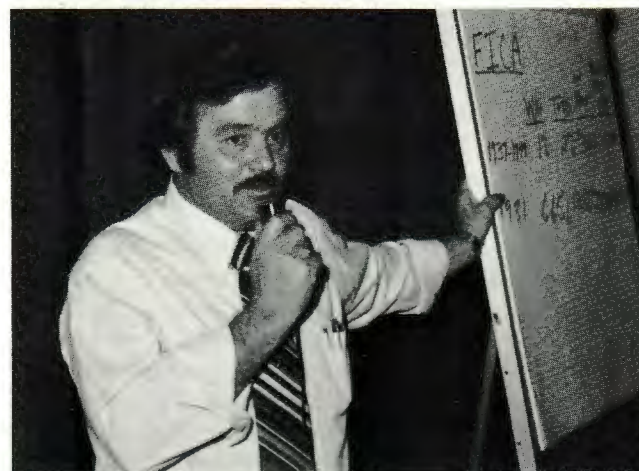




**SANDHILLS CHAPTER:** Colonel R. S. Allred, Jr., Chapter President, is shown presenting a plaque to Mr. James Currie, guest speaker for February and North Carolina Commissioner of Banking.



**ST. LOUIS GATEWAY CHAPTER:** Pictured from left to right are Mr. Wayne Wiskow, President, St. Louis Gateway Chapter, Mr. Frank A. Fishburne, Deputy Comptroller of the Air Force, and Colonel Charles D. Metcalf, Comptroller, Hq Military Airlift Command. Mr. Fishburne spoke to the Gateway Chapter during its 18 November 1980 general meeting. The subject of his address was the 1981 budget.



Mr. Frank Johnson, Deputy Finance and Accounting Officer of Headquarters XVIII Airborne Corps and Fort Bragg, addressed the December meeting of the Sandhills Chapter.

**GREATER ATLANTA CHAPTER:** Greater Atlanta Chapter President, Mr. Van L. Rye and VP Ms. Frances L. Sage, are shown with guest speaker Mr. Peter C. White, President of the Southern Center for International Studies (SCIS) in Atlanta, Georgia. Mr. White addressed the February 1981 Chapter meeting. His topic covered the purpose and function of the SCIS and he also discussed the economic environment differences between the United States and Japan, i.e., What we have and why they (Japan) don't.







**INDIANAPOLIS CHAPTER:** Recently, Mr. Don Scantlebury, director of financial management studies division for General Accounting Office in Washington, D.C. was the distinguished speaker. His discussion of fraud, waste and abuse and the "hot line" developed by GAO to deal with these problems, was most informative. His use of "real life" examples drove his points home most effectively.



**VENTURA CHAPTER:** Walter Beck, President of the Ventura Chapter ASMC is shown presenting Clara Russell the National Award from the Office of the Assistant Secretary of the Navy, George A. Peapples. She is also presented the Local Award from the Ventura Chapter of ASMC for her outstanding leadership and contributions to the ever expanding membership of ASMC.



**DALLAS/FORT WORTH CHAPTER:** A recent guest speaker was Mrs. Juereta P. Smith shown above with Mr. Martin R. Handel (president of the Dallas/Fort Worth Chapter) and Mr. Anthony L. Marma. Mrs. Smith, Regional Director of the U.S. Federal Trade Commission spoke on "One Approach to Federal Regulation". Honored at the meeting was Colonel Richard J. Pettit, Director of Marketing Research and Mr. Anthony L. Marma, Comptroller, both retiring.



**ALAMO CITY CHAPTER:** 1981 Officers of the Alamo City Chapter were sworn in at the October meeting by Mr. E. "Manny" Rosen, National President, ASMC. The newly elected officers from left to right are: Col R. Black, Pres.; Ms. H. Yarling, Sec.; LtCol T. Trumbula, VP, Ft. Sam Houston; Col R. Toney, VP Randolph AFB and Program;

LtCol J. Taddeo, VP Brooks AFB; Col F. Peschal, VP Kelly AFB; Col D. Oyler, VP ESC; LtCol J. Geyer, VP AFCEMS; Col P. Allison, VP Lackland AFB; Maj C. Rose, Treas.; Lt D. Price, Gen. Counsel; Lt J. Boland, Chapter Exec; Ms. P. Pellerin, Pub/Alamo Journal; Ms. G. Meyers, Historian.





**GREATER ATLANTA CHAPTER:** Chapter Charter is passed to President, Mr. Van L. Rye, by the Past President, Mr. Larry Lavoie, at the first anniversary meeting of the Greater Atlanta Chapter.



**GREATER ATLANTA CHAPTER:** On 8 Oct 1980, General R. M. Shoemaker, Commander, US Army Forces Command, was presented his membership certificate by Mr. Larry Lavoie, President of the Greater Atlanta Chapter. General Shoemaker was the keynote speaker at the first anniversary luncheon. He shared with the membership some of his financial experiences as a young officer in Europe.



**GREATER ATLANTA CHAPTER:** Past President, Mr. Larry Lavoie, administers the Oath of Office to the newly elected officers on 8 October 1980. New officers are (left to right)

Ms. Norma Reyen, Treasurer; Mr. Bobby E. Bryant, Secretary; Ms. Frances Sage, 2d Vice President; LTC S. R. Farris, 1st Vice President; and Mr. Van L. Rye, President.



**CHESAPEAKE CHAPTER:** National President Manny Rosen was the guest speaker at a recent luncheon where past presidents and long-time members were honored. Shown in the photo are: Top Row, left to right: Dave Ore, Mike Bolton, Don Thompson, Manny Rosen, John Zdenek,

Charlie Brannan, Joe Wingo, Len Dube, William Harris. Bottom Row, left to right: Bernard Aiken, Margaret Shores, Zigmund Gast, Dorothy Breidenbaugh, Tom Bair, Bernard Henderson.





**MIDDLE GEORGIA CHAPTER:** Mr. Frank A. Fishburne, Deputy Comptroller, HQ USAF, was the speaker for the Association of Military Comptrollers, Middle Georgia Chapter, Robins AFB, Georgia during their October meeting. Mr. Fishburne spoke concerning funding expected during FY81 and projected program/funding changes for FY82. Shown (l to r) Colonel Ralph Law, WR-Comptroller, Mr. Fishburne, and Mr. Gene Carroll, President of the Middle Georgia Chapter, ASMC.



Major General Richard Bodycombe, Chief of the Air Force Reserve, HQ USAF, Washington, D.C., was the speaker for the Association of Military Comptrollers, Middle Georgia Chapter, Robins AFB, Georgia during their November meeting. General Bodycombe spoke concerning the budget for reserve activities and the receptive atmosphere of the administration headed by President Ronald Reagan to the needs of the military for maintaining defense readiness. He is shown being presented with a memento from Gene Carroll, Chapter President.



Ms. Paulette Gore, Taxpayer Service Representative, Internal Revenue Service, was the speaker for the Association of Military Comptrollers, Middle Georgia Chapter, Robins AFB, Georgia during their December meeting. Ms. Gore spoke concerning new deposit requirements for 941 employment withholding taxes for small businesses, new moving expense allowances and tax law changes affecting 1980 tax returns. Gene Carroll, Chapter President is on the left.



**HONOLULU CHAPTER:** E. "Manny" Rosen, ASMC National President, addressed the Honolulu Chapter on 18 November 1980. Pictured (left to right) are Captain Glenn Gaddis, Captain Tom Potter, Mr. Rosen, Colonel Sven Johnson, and Colonel Bryson Jhung.





### COCHISE CHAPTER

The American Heritage Week Career Day Fair held at the NCO Club, Ft. Huachuca, Arizona included a career opportunities booth co-sponsored by Comptroller and Cochise Chapter ASMC personnel. Janet Benskin, Comptroller Fellow assigned to the Program and Budget Division, Office of the Comptroller, Headquarters, USACC is shown explaining various Comptroller career opportunities. The representatives explained career opportunities available in the Comptroller functional areas and hand-outs explained various programs available and qualification requirements for each functional area or program.

The Comptroller/ASMC representatives were invited to participate in Career Day activities at two area high schools in 1981 to discuss Comptroller career opportunities and to encourage further education in preparation for entry into these fields.



**WASHINGTON CHAPTER:** Dr. Jack Borsting was the January luncheon speaker. Over 230 attendees heard his inspiring remarks concerning the new administration and budget proposals.



The February speaker was Mr. Robert Goralski, formerly NBC News, and now the Director of Information, Gulf Oil Corporation. His presentation concerned the importance of oil on history and the outcome of past wars. Shown is Mr. William Blumberg and BG Paul Burns (Indianapolis



Above Mary Walker, Director of the Army Productivity Capital Investment Program, Office of the Comptroller of the Army, is speaking to the Cochise Chapter of ASMC at Ft. Huachuca, AZ during their October 1980 meeting. Ms. Walker gave the Cochise Chapter a brief overview of the Army's Productivity Capital Investment Program and how it impacts on Ft. Huachuca.



**SAN FRANCISCO CHAPTER:** RADM S. D. Frost, SC, USN, Deputy Comptroller and acting Comptroller of the Navy, recently visited the San Francisco Bay Area and spoke at a luncheon sponsored by the American Society of Military Comptrollers (ASMC). RADM Frost has served in the past as president of ASMC and is currently a vice president within the organization. During his talk, he discussed the critical role of financial management in the Navy today and how ASMC can assist financial managers serving military organizations. Key financial personnel from Bay Area activities attended the luncheon. The event should help revitalize the ASMC within the Bay Area. Interested military and civilian personnel involved in financial management at any level who would like more information about ASMC are encouraged to call Mr. George Morrison, 415-561-4107.



Chapter) during the question and answer period. In the group picture is (l to r) COL Ross Plasterer, President Washington Chapter, Ms. Andrea Haslinger, USMC Ass't Secy, Mr. Robert Goralski, Ms. Evelyn K. Greene, Secretary, and Mr. John Bunnell, OSD Vice President.



## FT. LEONARD WOOD AND ST. LOUIS HOST COMPTROLLERSHIP SYMPOSIUM

A fall Professional Comptrollership Symposium was held October 24th at the Breckenridge Hotel, St. Louis, Missouri. A total of 93 ASMC members were in attendance for the day's activities sponsored by the Ft. Leonard Wood and St. Louis Gateway Chapters.

The keynote speaker was Professor Alice Bante from Meramec College. She delivered an outstanding address entitled "Managing by Delegating" which covered the why and how of delegating responsibility and authority. Viewing managing as more than a part time avocation of the supervisor, Ms. Bante encouraged managers to resist the temptation to push the pencil in favor of working through their people. She told non-supervisory employees what they might find as reasons for resistance to delegation of authority by their supervisors and what they might do to lessen that resistance.

Following the general session individual workshops were convened with the following topics and speakers:



*Wayne Wiscow, Chapter President, Professor Bante, LCDR Terrance Johnson, Education Chairman*



**FINANCE AND ACCOUNTING:** COL Joy Wood, Comptroller, AF Communications Command



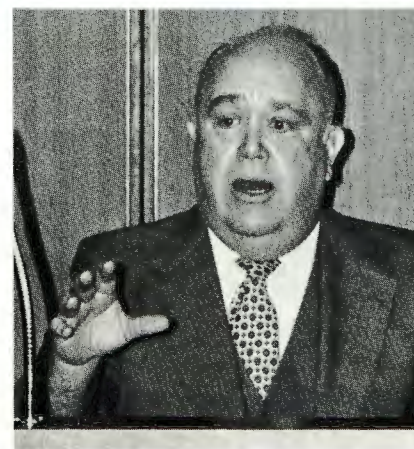
**CAREER DEVELOPMENT AND PROGRESSION:** Mr. Eugene Viscardi, Personnel Staffing Specialist, Mid-Continent Region, OPM



**MANAGEMENT ANALYSIS:** Mr. Maury King, Chief, Management Analysis Section, DMAAC



**BUDGET ANALYSIS:** Mr. Harold Lewis, Budget, DMAAC



**AUDITING:** Mr. Don Russell, Chief, Internal Review, Ft. Leonard Wood



# ASMC CHAPTER MAILING ADDRESSES

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MD 21005

ASMC-Cleveland Chapter  
c/o Mr. Frank Fuhs, President  
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ASMC-Central Texas Chapter  
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ASMC-Dallas/Ft. Worth Chapter  
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Naval Air Engineering Cen  
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c/o MAJ John W. Findlater, Jr.  
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ASMC-Montgomery Chapter  
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AFAA-O-AU  
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Maxwell AFB, AL 36112

ASMC-Monterey Chapter  
c/o P L Barger, Secretary  
SMC 1067  
Naval Postgraduate School  
Monterey, CA 93940

ASMC-Naval Academy Chapter  
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Annapolis, MD 21402

ASMC-Northern New Jersey CH  
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ASMC-Greater Omaha Chapter  
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CMDR Force Inf Div (M)  
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ASMC-Rock Island Chapter  
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ASMC-Rheinland Pfalz Chapter  
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ASMC-Red River Chapter  
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ASMC-Okinawa Chapter  
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Assistant Comptroller  
First Marine Aircraft Wing  
Fleet Marine Force, Pacific  
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**Names of ASMC Chapter  
Presidents Are Listed  
on Page 6**



# 1981 PROFESSIONAL DEVELOPMENT INSTITUTE

## ★ SOME LAST MINUTE INFORMATION ★



### Wednesday evening, 27 May 81

5:30-6:30

**Get Together—Sheraton Hotel**  
St. Louis Gateway Chapter—Host

7:30-11:30

#### **Laclede's Landing**

An unstructured, Get Acquainted Evening. Historic, renovated 22½ acre, 9-block area comprised of captivating night spots offering tantalizing food for all tastes, live dixie-land jazz, folk and rock music and, of course, quiet corners for cocktails and conversation.

Buses will transport guests from the Sheraton to Laclede's Landing on a continuous basis.

No Cost

### Thursday Evening, 28 May 81

**An Evening on the Ole Miss.** Ride down the Mississippi River to the accompaniment of jazz music.

6:30-8:00

The evening will commence with a wine and cheese reception in the Old Courthouse of St. Louis which was built in 1845. The building's dome is the forerunner of similar ones on capitol buildings throughout the land and predates that of the Nation's Capitol by 2 years.

8:30-11:15

The evening will continue with a leisurely ride down the Mississippi on two 19th-Century-era steamboats anchored together, a sit-down meal, cash bar and banjo strumming to add to the festivities.

Transportation will be provided.

COST: \$23.00 per person

### EXTRA MEAL TICKETS

**Luncheons — Thursday or Friday — \$12.50**

**Banquet Tickets — \$15.00**



## "SPOUSE" EXCURSIONS

### Thursday, 28 May 81

8:45-9:20 a.m. **Get Acquainted Coffee** — Hospitality Room — Sheraton

9:30-4:00 p.m. **St. Louis Now-and-Then Tour**

Featuring: St. Louis Riverfront  
Campbell House  
DeMenil Mansion  
Luncheon: Carriage House—DeMenil Mansion  
(Sponsored by St. Louis Gateway Chapter)  
Shaw's Garden  
Forest Park  
St. Louis New Cathedral  
COST: \$15.00 Per Person

Your tour will begin on the historic St. Louis Riverfront where this city had its beginnings. Enjoy the old and the new as you see the sternwheelers and showboats, the oldest Cathedral west of the Mississippi, and the Old Courthouse, site of the Dred Scott Slavery trial, all in the shadow of the Gateway Arch.

The Historic Campbell House will be visited along with the Historic Chatillon DeMenil Mansion. Luncheon will be served in the Carriage House of the DeMenil Mansion.

One of the most beautiful and unique botanical gardens in the United States—Henry Shaw's Garden is located in the heart of the city and includes more than 79 acres of gardens, horticulture displays and historic buildings.

The Climatron, the world's first geodesic-domed greenhouse, houses tropical plants. Also included are the Desert and Mediterranean Houses, Scented Garden for the Blind and the largest Japanese Gardens.

Re-live the 1904 World's fair as you wind your way through Forest Park. The sights and sounds of the Fair will be brought alive for you as you pass the many landmarks, the Art Museum, the Municipal Opera, McDonnell Planetarium, Jefferson Memorial, the famous St. Louis Zoo and the Jewel Box.

There will be a tour of the St. Louis New Cathedral which has the largest collection of mosaics in the Western World covering nearly the entire interior.

### Friday, 29 May 81

9:00-3:00 p.m. **Fashions and Fun**

Featuring: Plaza Frontenac  
Continental Breakfast and Fashion Demonstration (Accessories)  
Luncheon—Plaza Frontenac—at one of the following restaurants  
of your choice (cost not included): Magic Pan (Crepes); Pasta  
House; The Stage (New York Deli); Zodiac Room (Neiman  
Marcus Tea Room); or Fanny's (Salads and Sandwiches).  
Bardenheier's Winery  
COST: \$15.00 per person

Plaza Frontenac is not just another shopping center. It is an attractive, colonial-style mall with boutiques, stores, gift shops, and restaurants.

The large air-conditioned mall is anchored by Saks Fifth Avenue on one end and Neiman Marcus on the other, in between many shops with clothes for all ages, gifts, jewelry, coffee, tea, cheese, books, etc.!

A special welcome featuring coffee and rolls will be included for your group. A fashion demonstration (accessories) will take place. Ample time will be given to shop in the mall.

Then complete your tour by visiting Bardenheier's Winery, the oldest family-owned wine cellar west of the Mississippi. Here you enjoy a plant tour and taste their many fine wines of Missouri.

Gift certificate drawing will be held on the bus.

For the special events and spouse excursions make checks payable to Gateway Chapter, ASMC, by 11 May 81. Reservations are limited and will be on a first come, first serve basis.

MAILING ADDRESS: Gateway Chapter, ASMC, P.O. Box 225, Scott AFB IL 62225

**CUT FOR  
FRAMING**







## PLEDGE OF PROFESSIONALISM

**As a Member  
of  
AMERICAN SOCIETY OF MILITARY COMPTROLLERS**

**I pledge to**

- be guided in all activities by loyalty to the highest principles, always remembering that public office is a public trust.
- refrain from activities which are in conflict with the public interest or are discreditable to the Society, and to avoid activities which create the appearance of such conflict.
- exercise diligence, objectivity and integrity in professional activities, ever aware of the responsibility to eliminate improprieties.
- refrain from the transmission or usage, for personal gain or advantage, of information obtained in the professional environment.
- carefully earn and continuously protect my reputation for good moral character in comptrollership.
- recognize that professional example will influence associates and efficiency.
- recommend and initiate methods to enhance productivity and efficiency.
- continuously strive to increase my professional knowledge and skills to improve service and value to associates and the Society.
- extend the same consideration to the rights and interests of others that I seek for myself.
- respect the professionalism of fellow-members and work with them to promote the goals and programs of the Society.







# AMERICAN SOCIETY OF MILITARY COMPTROLLERS

## 1981 PROFESSIONAL DEVELOPMENT INSTITUTE

### WEDNESDAY 27 MAY 1981

- 1300-1530 Comptroller Workshop by Service**
- Army
  - Navy
  - Air Force
  - Marine Corps
  - Coast Guard
- 1530-1545 Break**
- 1545-1700 National Meeting** — All members of National Council
- 1730-1830 Get Together**
- Host: St. Louis Gateway Chapter
- 1930- LACLEDES LANDING** — An unstructured, Get Acquainted Evening. Historic, renovated 22½-acre, 9-block area comprised of captivating night spots offering tantalizing food for all tastes, live Dixieland jazz, folk and rock music and, of course, quiet corners for cocktails and conversation.
- Buses will transport guests from the Sheraton to Laclede Landing and return.

### THURSDAY 28 MAY 1981

- 0800-0815 Assemble**
- 0815-0830 Invocation and Flag Ceremony**
- 0830-0855 Welcome**
- Commanders
- 0900-0945 Keynote Speaker**—Dr. Herb True

### THURSDAY (continued)

- 0945-1015 Break**
- 1015-1230 Workshops**
- 1230-1430 Luncheon and Speaker**—Professor Alice Bante
- 1500-1700 Workshops** (Same as A.M.)
- 1900- AN EVENING ON THE OLD MISS.** Ride down the Mississippi River to the accompaniment of Jazz music. The evening will begin with cocktails in one of the historic downtown buildings and will continue with a leisurely ride down the Mississippi. Buffet will be served. Bus transportation will be provided.

### FRIDAY 29 MAY 1981

- 0800-0900 Speaker**—Mr. Chris Wallace, NBC News
- 0900-1000 Speaker**—
- 1000-1015 Break**
- 1015-1215 Workshops**
- 1230-1430 Luncheon and Speaker**—Mr. Arthur Zikel
- 1500-1700 Workshops** (Same as A.M.)
- 1800- Social**
- 1845- Awards Banquet**—The Honorable Jack Borsting, OSD(C)  
Mr. E. Rosen, National President, ASMC

## WORKSHOPS

### THURSDAY, 28 May 1981

1. Professional Development of the Financial Manager
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# SELECTING THE APPROPRIATE DEPRECIATION SCHEDULE

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When purchasing an asset, a business must be judicious in its selection of a depreciation schedule. The implications embodied in this decision can be very beneficial to the firm if the proper schedule is implemented. On the other hand, an inappropriate depreciation schedule can be very costly to the firm.

The purpose of this article is: (1) to investigate the alternatives available to the business in its selection of a depreciation schedule, (2) to explore the impact of these alternatives on the firm and (3) to provide the military comptroller the means to test the vendor's ability to use depreciated effectively. The acquisition of a general aviation aircraft is used as a vehicle to illustrate the points as they are made.

Section I discusses the effect of depreciation charges on cash flows. Section II describes depreciation under the general guidelines. Section III explains the Class Life Asset Depreciation Range System (ADR). Section IV summarizes.

## I. DEPRECIATION CHARGES AND CASH FLOW

Most fixed assets lose their usefulness over time. There are two major reasons for this: (1) wear-out, due to use and (2) obsolescence, due to increasing technology. Depreciation charges are the accounting recognition of these decreases in economic viability.

The Internal Revenue Service (IRS) recognizes that the value of an asset will diminish over time. Accordingly, the IRS allows the "depreciable basis" to be reduced periodically in the effort to reflect the decreasing value of the asset (the calculation of the depreciable basis is explained below).

The recognition of depreciation would not be worth the time to discuss it, however, if it were not for the relationship of such charges to the firm's tax liability. The IRS takes the position that depreciation charges, like interest charges, are tax deductible. That is, the IRS allows depreciation charges to reduce the amount of taxable income generated by the firm.

Unlike the tax deductible interest charges (which are cash outflows), depreciation charges do not involve cash outflows. Depreciation charges are simply accounting entries: they are non-cash expenses.

It can be demonstrated that such tax deductible non-cash expenses as depreciation have a very favorable impact on the firm's cash flow. That effect can be quantified as follows:

$$(1) \quad \uparrow CF = (\uparrow \text{dep})(t)$$

where:  $\uparrow CF$  = increase in cash flow  
 $\uparrow \text{dep}$  = increase in depreciation charge  
 $t$  = tax rate

Thus, deductible non-cash expenses *increase* the firm's cash flow. By contrast, deductible cash outflows (like interest charges) *reduce* the firm's cash flow.

There are two basic approaches allowed by the IRS: (1) the general guidelines and (2) the Class Life Asset Depreciation Range System (ADR). Both basic approaches are further subdivided into specific methods of computation. However, regardless of the general approach or specific method selected, there are three values that enter the computation. These three values are: (1) the depreciable basis (DB), (2) the number of years of depreciable life ( $n$ ) and (3) the residual value. Each is described below.

## The Depreciable Basis (DB)

The value that the "depreciable basis" takes depends upon which of several alternative procedures is used in asset acquisition. The acquisition procedure also influences taxes payable. An example illustrates the three most important of the acquisition alternatives. These are: (1) an original purchase, (2) the sale of an old asset and purchase of a new one and (3) a trade-in.

Suppose a business buys a new pressurized twin-engined general aviation aircraft. Suppose further, that the full price is \$1,263,766 including: (1) \$1,215,160 for airframe, engines, avionics, and transportation and related charges involved in making the aircraft available to the firm and (2) \$48,606 for state and local taxes (a four-percent tax rate). If there is no other aircraft involved in the transaction, the depreciable basis becomes \$1,263,766.

Suppose, however, that another aircraft is involved in the transaction. Suppose that the firm has an old aircraft that it purchased four years ago, and that its original depreciable basis of \$838,600 has now been reduced to \$167,720. Suppose, finally, that the old aircraft can be sold or traded in for \$725,000.

If it is sold, the depreciable basis for the new aircraft is \$1,263,766: identical to that for an outright purchase. However, the IRS is also interested in the old aircraft. If the depreciation schedule had been perfect, the old aircraft would have sold for \$167,720. However, since it actually



sold for \$725,000, the firm recognized \$557,280 (\$725,000 - \$167,720) in depreciation that did not actually occur. Since the \$557,280 in depreciation expense reduced the firm's tax bill in years gone by, the IRS demands immediate payment of those tax dollars shielded by excess depreciation expense. If the firm's marginal tax rate is 48 percent, the check to the IRS must be made out for \$267,494.40 (\$557,280 x .48). This procedure is called *depreciation recapture*.

This rather substantial tax bill can be postponed if the old aircraft is traded-in, rather than sold. The IRS recognizes a trade-in as an upgrading of existing equipment.

State and local sales tax is reduced in a trade-in, because the tax is based on acquisition cost. For an outright purchase, the *sales price* is the acquisition cost. For a trade-in, however, *the difference between the sales price and the trade-in* is the acquisition cost. This is an added benefit associated with a trade-in. An example illustrates. Suppose the sales price of the new aircraft is \$1,215,160 and the sales tax is four percent. The depreciable basis becomes:

	\$1,215,160	Sales price of the new aircraft
less	725,000	Trade-in allowance
	<u>\$ 490,160</u>	Acquisition cost of the new aircraft
times	.04	Sales tax rate
	\$ 19,606.40	Sales tax
	<u>490,160.00</u>	Acquisition cost of the new aircraft
	\$ 509,766.40	Total investment in the new aircraft
plus	167,720.00	Book value of the old aircraft
	<u>\$ 677,486.40</u>	Depreciable basis of the new aircraft

Thus, both the depreciable basis and the firm's tax liability are affected by decisions made at the time of acquisition.

#### The Number of Years of Depreciable Life (n)

The IRS has established guidelines for the determination of the value of *n*. Under the general guidelines, the IRS accepts a six-year life for business aircraft. If however, the firm has experience, or other good reason, indicating a faster or slower rate of depreciation, the IRS is amenable.

Under the ADR system, an average life of six years is mandated for corporate aircraft. The minimum acceptable depreciable life under ADR is five. The maximum is seven.

Because of the time value of money, it is in the best interest of the firm with a large amount of taxable income to record depreciation charges as early as possible. On the other hand, the firm with a temporary reduction in taxable income would desire to defer depreciation write-offs. The IRS allows a relatively large degree of flexibility in this regard.

#### The Residual Value (RV)

The residual value (RV) is an IRS concept. It is the estimated salvage value (market value of aircraft at the end of its depreciable life) minus ten percent of its depreciable basis.

Equation (2) illustrates:

$$(2) \quad RV = ESV - (DB) (.1)$$

where RV = residual value of the asset

ESV = expected salvage value of the asset at the end of *n* years.

DB = depreciable basis

The advantage resulting from the use of residual value (RV) rather than the expected salvage value (ESV) in depreciation calculations is a faster write-off. Thus, the time value of money works to the advantage of the firm with excess taxable income. (The gain is *only* in timing, because a depreciation recapture is required when the asset is eliminated as an asset of the firm.)

It should be noted, however, that the firm need not reduce the expected salvage value by ten percent of the depreciable basis in order to determine the residual value. If the firm has a temporary reduction in taxable income, the firm can compute depreciation using the residual value shown in equation (3).

$$(3) \quad RV = ESV$$

(RV and ESV are defined earlier)

The calculation of residual value by use of equation (3) effectively slows the depreciation write-off, deferring it until the firm has greater amounts of taxable income. The IRS, thus, allows the firm flexibility in the computation of residual value (RV) as well as it does in the calculation of the depreciable basis (DB) and the number of years of depreciable life (*n*).

## II. THE GENERAL GUIDELINES

Under the general guidelines the depreciation write-off may begin at any one of several times. The firm is free to select the one desired. The choices are these: (1) begin on the day the asset is purchased (placed in service), (2) begin on the first day of the month of purchase for assets purchased prior to the 15th of the month, and begin depreciation of assets purchased the last half of the month on the first day of the following month, (3) begin on the first day of the month of purchase for assets purchased anytime in the month, and take no depreciation the last month of service, (4) begin depreciation for all new assets at the midpoint of the year of purchase, regardless of the date of purchase or (5) begin on the first day of the year of purchase for all assets purchased the first six months of the year, and begin depreciation of assets purchased the last half of the year on the first day of the next year.

There are several methods of calculating the amount of depreciation charge under the general guidelines. Three of these are mentioned here: (1) straight line, (2) sum-of-the-years-digits and declining balance. These methodologies are discussed in turn.

#### Straight Line

The straight line method of depreciation is predicated on the notion that the economic value of the business aircraft

(Continued on next page)



declines the same dollar amount each year. Equation (4) gives a mathematical expression which can be used to calculate the dollar amount to charge for straight line depreciation.

$$(4) \text{ DSL} = \frac{1}{n} (\text{DB} - \text{RV})$$

where: DSL = depreciation, straight line  
 $n$  = number of years of depreciable life of the asset  
 DB = depreciable basis of the asset  
 RV = residual value of the asset at the end of its depreciable life.

Assume a depreciable basis of \$677,486.40, a depreciable life of six years, and a residual value of \$243,032. The annual depreciation charge is \$72,409.07 a year for five years, and \$72,409.05 the sixth year (the \$.02 difference the last year is due to rounding).

$$\begin{aligned} (4) \text{ DSL} &= \frac{1}{n} (\text{DB} - \text{RV}) \\ &= \frac{1}{6} (\$677,486.40 - \$243,032) \\ &= \frac{1}{6} (\$434,454.40) \\ &= \$72,409.07 \end{aligned}$$

The first part of equation (4) defines the depreciation rate. In this case  $(1/n) = (1/6)$ . Thus, one sixth of the total amount to be depreciated will be taken each year.

The second part of equation (4) defines the depreciation amount to be written-off the entire six-year period. In this case:  $(\text{DB} - \text{RV}) = (\$677,486.40 - \$243,032) = \$434,454.40$ .

At the end of the six-year depreciation period a total of \$434,454.40 will have to be taken in depreciation charges. This leaves the \$243,032 residual value on the books as long as the firm retains the aircraft.

#### Sum-of-the-Years-Digits

Since 1954, all businesses have been allowed to write-off their depreciable assets at an accelerated rate. There are two methods of accelerated depreciation allowed by law: (1) sum-of-the-years-digits and (2) declining balance.

The sum-of-the-years-digits method is computed as shown in equation (5).

$$(5) \text{ DSYD} = \frac{x}{n(\frac{n+1}{2})} (\text{DB} - \text{RV})$$

where: DSYD = depreciation sum-of-the-years-digits.  
 $x$  = the number of years of depreciable life remaining at the beginning of the specific depreciation period.

( $n$ , DB and RV are all defined earlier)

Once again, the depreciation rate is defined by the first

part of the equation, and the total depreciation amount to be written-off is defined by the last part of the equation. In the computation of straight line depreciation, both the rate and amount remain the same over the entire depreciation period. This is not true with the sum-of-the-years-digits method.

The depreciation amount is identical for straight line and sum-of-the-years-digits depreciation:  $(\text{DB} - \text{RV})$ . Thus, the same \$434,454.40 is written-off in both.

The depreciation rate, however, is variable. The denominator is constant. In this case it is  $(n) \frac{(n+1)}{2} = (6) \frac{(6+1)}{2} = (6) \frac{7}{2} = \frac{42}{2} = 21$ . The numerator, however, changes from

year to year. At the beginning of year 1, for example, there are six years of depreciable life remaining. At the beginning of year 2, there are but five years remaining. Thus, the sum-of-the-years-digits method yields a different depreciation charge each year. The depreciation for the example becomes:

<u>Year</u>	<u>Depreciation</u>	<u>Ending book value</u>
1 $\frac{6}{21}$	$(\$434,454.40) = \$124,129.83$	\$553,356.57
2 $\frac{5}{21}$	$(\$434,454.40) = \$103,441.52$	\$449,915.05
3 $\frac{4}{21}$	$(\$434,454.40) = \$82,753.22$	\$367,161.83
4 $\frac{3}{21}$	$(\$434,454.40) = \$62,064.91$	\$305,096.92
5 $\frac{2}{21}$	$(\$434,454.40) = \$41,376.62$	\$263,720.30
6 $\frac{1}{21}$	$(\$434,454.40) = \$20,688.30$	\$243,032.00
	<hr/>	<hr/>
	\$434,454.40	

The example illustrates that timing is the only difference in the two methods. The sum-of-the-years-digits method allows a faster write-off (but not a greater write-off). The accelerated method is advantageous to the firm with large amounts of taxable income, because the tax shield is effective earlier than it is in the straight line method.

#### Declining Balance

The declining balance method is an accelerated method, so the depreciation write-offs are variable, and larger in the earlier years than they are in later years. The sum-of-the-years-digits method demonstrates acceleration by holding the amount constant and varying the rate. The declining balance method reverses this procedure. In the declining balance method, the rate is held constant while the amount changes from year to year according to the relationships shown in equations (6).

$$(6) \text{ DDB} = \frac{f}{n} (\text{BV})$$

where: DDB = depreciation, declining balance  
 $f$  = declining balance factor



<u>Yr</u>	<u>Depreciation</u>	<u>Ending Book Value</u>
1	$(\frac{1}{6})(\$677,486.40) = \$112,914.40$	\$564,572.00
2	$(\frac{1}{6})(\$677,486.40) = \$112,914.40$	\$451,657.60
3	$(\frac{1}{6})(\$677,486.40) = \$112,914.40$	\$338,743.20
4	\$ 95,711.20	\$243,032
5	0	\$243,032
6	0	\$243,032
	<u>\$434,454.40</u>	

The dollar value of the difference is shown below:

<u>Yr</u>	<u>Straight Line Depreciation</u> <u>General Guidelines</u>	<u>ADR</u>
1	\$72,409.07	\$112,914.40
2	\$72,409.07	\$112,914.40
3	\$72,409.07	\$112,914.07
4	\$72,409.07	\$95,711.20
5	\$72,409.07	0
6	\$72,409.05	0
	<u>\$434,454.40</u>	<u>\$434,454.40</u>

Due to the time value of money, the ADR method is to be preferred over the method of the general guidelines for those firms with an excess of taxable income. A five-year period would be even more beneficial, but is not computed here. The six-year period is retained throughout this section of the paper in order to demonstrate the power of the ADR methods.

#### Sum-of-the-Years-Digits

There are two changes made in the sum-of-the-years-digits method under ADR, in addition to the specification of an upper and lower bound for depreciable life. The first of these is identical to the change made in the straight line calculation: depreciation is computed on the full depreciable basis, not the depreciable basis alone less the residual value. The second change allows the taxpayer to switch to straight line ADR depreciation. Both of these changes tend to allow a more rapid write-off of the asset. Equation (8) gives the mathematical formulation of this method.

$$(8) \text{DSYD}_{\text{ADR}} = \frac{x}{n(\frac{n+1}{2})} \quad (\text{DB})$$

where:  $\text{DSYD}_{\text{ADR}}$  = depreciation, sum-of-the-years-digits under ADR

(x, n and DB are defined earlier)

The sum-of-the-years-digits depreciation schedule under ADR is:

<u>Yr</u>	<u>Depreciation</u>	<u>Ending Bk Value</u>
1	$(\frac{6}{21})(\$677,486.40) = \$193,567.54$	\$483,918.86
2	$(\frac{5}{21})(\$677,486.40) = \$161,306.29$	\$322,612.57
3	\$ 79,580.57	\$243,032
4	0	\$243,032
5	0	\$243,032
6	0	\$243,032
	<u>\$434,454.40</u>	

The option to switch to straight line (ADR) need not be used in this case. Railroad cars, whose minimum allowable life is 12 years under ADR would benefit by the ability to convert to straight line. The much shorter lived business aircraft do not benefit from this provision.

The faster write-off available under ADR is illustrated by comparing it with the sum-of-the-years-digits depreciation under the general guidelines.

#### Sum-of-The-Years-Digits Depreciation

<u>Yr</u>	<u>General Guidelines</u>	<u>ADR</u>
1	\$124,129.83	\$193,567.54
2	\$103,441.52	\$161,306.29
3	\$ 82,753.22	\$ 79,580.57
4	\$ 62,064.91	0
5	\$ 41,376.62	0
6	\$ 20,688.30	0
	<u>\$434,454.40</u>	<u>\$434,454.40</u>

Because of the time value of money, the faster write-off is the preferred method for firms with excess taxable income. The ADR system provides the taxpayer with a faster write-off than that available under the general guidelines.

#### Declining Balance

The declining balance method under the general guidelines: (1) reduces the full depreciable basis of the asset and (2) allows a switch to straight line at the option of the taxpayer. Since these two characteristics do not involve a change under ADR depreciation, they are not benefits that result from the use of declining balance ADR depreciation.

The advantage that springs from the use of ADR depreciation is the ability to switch from the declining balance method (ADR) to sum-of-the-years-digits (ADR). This conversion is not allowed under the general guidelines.

The optimal time to switch from the double-declining balance method to sum-of-the-years-digits is *always* at the beginning of the second year of a new assets depreciable life. The calculation demonstrating this is as follows:

$$\text{double-declining balance rate} = \text{sum-of-the-years-digits method rate}$$



BV = book value = depreciable basis (DB)  
minus accumulated depreciation charges.

(n is defined earlier)

Several declining balance factors are acceptable to the IRS. Only the two most important ones are mentioned here. First, if the aircraft is a "new" one (if the purchasing firm is the first non-dealer to own it), and its depreciable life is at least three years, a factor of "2" can be used. In such a case, the rate of write-off is twice that of the straight line method:  $(\frac{2}{n}) = (2) \times (\frac{1}{n})$ .

When used aircraft are purchased, or when the useful life is less than three years, the maximum factor allowed is 1.5. In these cases, the rate of write-off is  $1\frac{1}{2}$  times the straight line rate.

The value of the use of the declining balance method to firms with excess taxable income can be shown using the same data which illustrated the previous two methods.

Yr	Beginning Book Value	Depreciation	Ending Book Value
1	\$677,486.40	$(\frac{2}{6})(\$677,486.40) = \$225,828.80$	\$451,657.60
2	\$451,657.60	$(\frac{2}{6})(\$451,657.60) = \$150,552.53$	\$301,105.07
3	\$301,105.07	\$ 58,073.07	\$243,032
4	\$243,032	0	\$243,032
5	\$243,032	0	\$243,032
6	\$243,032	0	\$243,032
		<u>\$434,454.40</u>	

The declining balance method is so fast in this example, that full declining balance depreciation cannot be taken in year 3 and no depreciation at all can be taken in years subsequent to year 3.

The mathematical construction of both straight line and sum-of-the-years-digits depreciation reduces the book value of the asset to the residual value used in their calculation. This is not true of the declining balance method. The declining balance method may over- or under-depreciate the asset (the over-depreciation condition is illustrated above).

In the under-depreciation condition, the declining balance method never fully depreciates the asset. In order to compensate for this inadequacy, the IRS allows taxpayers to switch to the straight line method from the declining balance method anytime during the life of the asset. Because the timing of the switch is under the control of the taxpayer, the taxpayer should select the time most suitable to his business. The optimal time is always at the beginning of the first year the two methods yield the same depreciation write-off.

### III, ADR

The Class Life Asset Depreciation Range System, called ADR depreciation, was established in 1971. Under this system, assets are blocked together in like categories. Each category or class is given an average, a high and a low limit for the life of the asset.

Under "Transportation Equipment" for example is the class: "Aircraft (airframes and engines) except aircraft of air transportation companies." The "asset guideline period" is six years, with an upper limit of seven years and a lower limit of five years.

ADR rules apply to purchases of both new and used equipment. ADR depreciation, if elected, applies to all classes of assets (for which the IRS has established guideline lives) which the firm purchases during the years of election. This rule imposes no real restriction on the firm, however. If it is advantageous to the firm to select ADR depreciation for one of its equipment purchases, it will also be advantageous to select ADR depreciation for all other equipment purchases.

Since ADR depreciation applies to all assets purchased the year of election, depreciation charges begin: (1) at the mid-point of the year of purchase or (2) the first day of the year of election for all assets purchased the first half of the year (those assets purchased after mid-year begin depreciation on the first day of the next year). The firm can choose the beginning point it desires.

The nuances of the ADR system are introduced below.

#### Straight Line

Under the general guidelines, depreciation reduces the depreciable amount of the asset (DB—RV) as shown in equation (4). Under the ADR system, depreciation reduces the depreciable basis (DB) of the asset as shown in equation (7).

$$(7) \quad \text{DSL}_{\text{ADR}} = \frac{1}{n}(\text{DB})$$

where:  $\text{DSL}_{\text{ADR}}$  = depreciation, straight line (ADR)

(n and DB are defined earlier)

Since DB is larger than (DB — RV), the ADR method allows a faster write-off. The difference is illustrated below.

$$\begin{aligned} (7) \quad \text{DSL}_{\text{ADR}} &= \frac{1}{n}(\text{DB}) \\ &= \frac{1}{6}(\$677,486.40) \\ &= \$112,914.40 \end{aligned}$$

Thus, the straight line (ADR) depreciation schedule is:



$$\frac{2}{n} = \frac{x}{x(\frac{x+1}{2})}$$

$$\frac{2}{n} = \frac{x}{\frac{x^2 + x}{2}}$$

$$2(\frac{x^2 + x}{2}) = nx$$

$$x^2 + x = nx$$

$$x + 1 = n$$

$$(9) \quad x = n - 1$$

The double-declining balance methods always gives the faster write-off in year 1. Since  $\frac{2}{n}$  is the double declining balance depreciation rate and  $\frac{x(x+1)}{2}$  is the depreciation rate for the sum-of-the-years-digits, the point at which they are equal is the optimal time to switch. Equation (9) indicates that the taxpayer should always begin with double declining balance depreciation and switch to sum-of-the-years-digits at the end of year 1, when setting up the depreciation schedule for new equipment. No such rule-of-thumb applies to used equipment.

The double-declining balance depreciation schedule under ADR, with a switch to sum-of-the-years-digits (ADR) at the end of year 1 is:

Yr	Depreciation	Ending Book Value
1	$(\frac{2}{6})(\$677,486.40) = \$225,828.80$	\$451,657.60
2	$5(\frac{5+1}{2})(\$451,657.60) = \$150,552.53$	\$301,105.07
3	\$ 58,073.07	\$243,032
4	0	\$243,032
5	0	\$243,032
6	0	\$243,032
	<u>\$434,454.40</u>	

Note that, in this case, the fastest depreciation write-off possible under ADR is no improvement over that which is available under the general guidelines. The schedules are identical. This will not be true for a longer lived asset. The schedule available under ADR should always be used when the firm has excess taxable income. The ADR system is often faster than the schedule available under the general guidelines, but it is never slower.

### Continued from page 13

to compute the entitlements for the trips using the hourly approach.

The results of the initial review were very encouraging. Not only did the travel clerks praise the system as being more straight forward, as well as being easier to understand, a post audit of the vouchers disclosed that seventeen percent fewer computational errors were made using the hourly approach. It was evident to those involved with the test that the hourly system approach would at least partially alleviate the problem of inexperienced travel clerks throughout the Air Force. But what would be the reaction of the traveler to the new approach to determining travel entitlements?

## The Air Force Test

To gain the traveler reaction, it was necessary to test the system in a live environment. The Air Force Accounting and Finance Center requested and received approval from the joint service Per Diem, Transportation, and Travel Allowance Committee to test the hourly per diem system at Scott Air Force Base, Illinois, over the four month period beginning October 1980 and at Dover Air Force Base, Delaware, over a three month period beginning January 1981. The computational approach used in the live tests was that described in the hourly approach rather than the full hourly system. That is, daily reimbursement rates were determined and averaged rather than actual cost of lodging being used. The joint service committee members wished to take every precaution to assure that individual travelers would not be penalized by the test. Parallel records were maintained to compare payments made during the test with payments that would have been made under the current and under the full hourly system.

In preparation for the test an extensive publicity campaign was undertaken to inform as many potential TDY travelers as possible concerning the new system. As each traveler was serviced by the travel section of the accounting and finance activity, a handout giving the essential details of the computation was provided. An additional sheet requesting traveler comments was provided and a box in which to place the comments made available.

An analysis of the data for the first month of the test disclosed the expected results. Travelers are overwhelmingly in favor of the hourly system. Payments to individual travelers under the hourly system are comparable to similar payments that would have been made under the current system. And of equal importance, travel clerks recognize the hourly system as a welcome simplification of their daily task.

## Conclusion

For many years the average TDY traveler has been unable to understand the various computations used to arrive at a total per diem entitlement for a given trip. Most have simply placed their faith in the accuracy of the travel clerk responsible for completion of the travel voucher. In recent months, however, there has been new emphasis placed upon the simplification of these calculations. This new emphasis arises because of a steady decline in the experience level of travel clerks.

Two primary methods of simplification are currently very much in today's consideration. These methods are the flat rate and the hourly per diem. The hourly per diem system under test by the Air Force appears to offer many of the advantages sought by both the traveler and the travel clerk while maintaining cost control.

Whether the hourly system or any other system for per diem payments is accepted depends on future recommendations of your representative to the joint service Per Diem, Transportation, and Travel Allowance Committee. But travelers can rest assured, that each of their dedicated representatives is giving his or her best effort to provide a system that serves you—our customer.



# DIVIDENDS

## TIME—THE MOST VALUABLE MANAGEMENT RESOURCE

As members of the Comptroller organization, we all manage resources. When we think of resources, we think of funds, equipment, inventories, supplies—we think of prevention and detection of fraud, waste, abuse and misuse. We are charged with the responsibility to manage *all* resources efficiently, effectively, and wisely.

How often do we think of *time* as a management resource—a most valuable resource to be guarded and protected from waste and abuse. Obviously, time could not be included on an organization's balance sheet along with other unused resources, since it is not really an asset in that accounting sense. It could, however, be included on an imaginary personal balance sheet. On one side of the balance sheet, as an asset, the number of working hours in a day; on the other side, as a liability, the plans and objectives to be accomplished during that time. Unused hours in any given day could not be shown as deferred assets. Unlike normal accounting assets, time cannot be deferred—nor can it be replaced. Once unused, it is gone—wasted or abused. Thus, it is extremely important that it be used and managed, not only wisely, but efficiently and effectively—without waste and without abuse or misuse.

An effective time manager is one who has learned to wisely use and manage this valuable, irreplaceable resource—has learned to establish a sense of direction—to look for opportunities—to work smarter—to plan. An effective time manager has learned to establish goals, objectives, and milestones. Without such plans, energies are misdirected—time is wasted, abused, or misused.

A good way to start planning is to prepare a list of everything to be done for a day. Examine this list carefully and look for opportunities to save time. It may already be obvious that we are not as productive as we should be with the time available. Next, *prioritize* the list and then work on the listed tasks in a priority order, giving full attention to each one until completed. Proper planning saves time, and means less time spent in execution and control. *Handle papers only once.* Stops and starts are time consuming. Setting a paper aside for tomorrow is even more time consuming, for the brain must then retrieve those aspects that had been stored away for future use. This is sometimes more time consuming than the task itself.

*Group like tasks.* Learn to save steps. Accomplish everything in one step in the same area instead of retracing the same steps over and over. *Think ahead. Jot things down.* The best way to relax the mind and keep it uncluttered for the important things is to routinely jot down items

which should be remembered. Not having to store things in the memory provides relaxation and prevents tension. The simple technique of writing things down gives order and consistency to plans. Don't be embarrassed to jot down a few notes when the "boss" tells you to do something. It would be even more embarrassing to forget what you were told, or even worse, to provide the wrong response.

Learn to maximize the effectiveness of subordinates. This improves time management for both you and your staff. Most employees are underutilized. Surround yourself with capable staff and then let them function in the capacity intended. Let them know what is expected of them and what they can expect from you. Do take time to motivate people. When a job is well done, give immediate recognition and praise. This not only improves time management, but boosts morale and keeps people happy in their work. Try to maintain an atmosphere free of tension for all. An air of calm tends to promote a smooth work flow and can avoid costly mistakes—both time saving benefits.

Make everyone aware of the costliness of mismanagement of time—the cost of its waste and abuse or misuse. Have staff members sit down together periodically to discuss not *what* they are going to do but *how* they are going to work together and how they are going to work better and smarter. Any time-saving ideas then become the creative effort of those who must put them to use. New procedures are more likely to be implemented when they originate with the individuals themselves.

Time is a valuable, irreplaceable management resource but, unlike normal accounting assets, cannot be deferred nor replaced. Thus, if unused, or abused, it is lost and wasted. With the current emphasis on improved internal controls to combat fraud, waste, abuse and misuse of Government resources, it is our responsibility to include among those resources the most valuable of all—TIME.

Gertrude G. Myers  
Alamo City Chapter

## CONTROL IN AN ORGANIZATION

The term control applies to a broad range of methods employed in an organization to direct, restrain, govern, and check upon its various activities for the purpose of seeing that the organizations objectives are met. The means of control include, but are not limited to, form of organization, policies, systems, procedures, instructions, standards, committees, charts of accounts, forecasts, budgets, schedules, reports, check lists, devices, and internal auditing. It becomes apparent then that design and implementation of controls will have a profound effect on the performance of an organization.

Controls may be loosely divided into three categories: "management control", "internal accounting control" and "administrative control". Management control is concerned with carrying out broad organization-wide objectives and plans. Internal accounting control and administrative control are concerned with carrying out operating goals and plans. The means of control used are those consistent with established objectives. Management control relies on long-range plans, budget and forecasts, broad policy statements of function and responsibility, and internal auditing. Internal accounting control and administrative control rely on systems of authorization and approval, separation of duties, departmental budgets and forecasts, job assignment sheets, reports, production schedules, manuals, performance standards, logs, registers, charts, forms, records, and check lists.

Standards for audit of governmental organizations, programs, activities, and functions describe internal control as follows:

Internal control comprises the plan of organization and all the coordinate methods and measures adopted to safeguard assets, checks the accuracy and reliability of accounting data, promotes operational efficiency, and encourages adherence to prescribed managerial policies. The term embraces the policies, procedures, and practices established or encouraged by management, as well as the plan of organization and other measures intended to carry them out.

The characteristics of a satisfactory system of internal control would include:

1. A plan of organization that provides segregation of duties appropriate for proper safeguarding of the entity's resources (ensuring effectiveness).
2. A system of authorization and record procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenses (ensuring efficiency).
3. An established system of practices to be followed in performance of duties and functions of each of the organizational departments (ensuring compliance with policies and procedures).
4. Personnel of a quality commensurate with their responsibilities (ensuring accurate and reliable accounting).
5. An effective system of internal review (ensuring protection of assets).

Historically, the auditor's concern has been with the narrow field of accounting controls and administrative controls as they applied to matters of financial significance. This still applies for the financial statement audit, where the primary objective is to determine the fairness and consistency of financial statement presentations. However, when the step is made to



include as audit objectives the effectiveness or worth of a program or the efficiency with which resources are employed, it becomes necessary to consider the full range of controls and their application in order to provide the information that management requires.

When considering existing or potential forms of control, the objective sought and the level of control needed should be the primary considerations. It is possible to design controls that will provide for absolute coverage, but over-restriction of authority or proliferation of control reports with little informational value can produce a situation where an organization is driven by the controls in relation to the benefits to be derived. In many situations, over-control can produce inefficient use of resources or prevent the application of resources where they are necessary to the accomplishment of an objective.

The concept of internal control has progressed significantly over time. It has grown from merely a means to detect and prevent fraud to include the means of effectively performing a mission or realizing an objective. Naval management on all levels is subject to controls that are mandated by statute, by administrative regulations, or by executive direction. The degree of control and the detail of prescribed methods vary with the level afforded to local management. The extent to which the leeway is present, makes it necessary for local managers to design and implement controls as well as to operate within established controls. Implicit in this responsibility is the duty to advise higher level management when there are defects in or potential improvements to mandated controls.

An understanding of controls in use and controls available is a major part of a successful effort in the areas of auditing, internal review and management analysis. Use the tool of internal control and let it work for your benefit.

Sandra K. Messall  
New Orleans Chapter

## MY PERSONAL MANAGEMENT PHILOSOPHY

I insist that the military officer's management philosophy be bold, aggressive, and yet steadfast. But by the same token, his philosophy must yield to compassion, love, and trust. His philosophy must be built on a burning desire to succeed, but this desire must be harnessed with the unyielding ethical philosophy that ensures the highest standards of conduct. All these elements must be interlaced into a strong moral fiber that commands attention. Once this is achieved, I know that I will succeed because I now have what is often referred to as "tenacity of purpose."

In order to roll all of this together and provide an in-depth view, the following psychological model has been developed:

First, I demand that the military officer be legitimate and legitimacy can only be obtained through hard work and effort.

Legitimacy is earned and cannot be bartered for or bestowed upon. The young troop, intermediate supervisor or major subordinate commander must perceive that his superior has done or is willing to do anything that he is being instructed to do. This is especially true during the assignment of dangerous missions when there is a possible loss of life in the execution of these missions. For it is here that a very delicate balance must be struck between mission accomplishment and loss of life.

Secondly, I submit that the officer must have "tenacity of purpose" toward himself. He cannot afford to draw even a thin line between his private and military life. His main concern must be that he does his job not only satisfactorily, but that he has prepared himself for the next one. He must be constantly critical of himself, job performance, and attitude toward others in both the military and civilian communities. Because of temerity and desire to accomplish his mission, the officer will be closely scrutinized by a challenging community of people.

Third, the officer must listen to advice, especially that offered by his superiors, but he should through careful analysis determine if this advice really meets his own purpose prior to employment. He must maintain his independence even when advice might be unquestionably good. In so doing, the officer will be criticized, but he must remember that advice has a way of being translated into orders—his orders that could challenge his own ethics and integrity.

Fourth, the officer must have raw ambition, an abundance of self-determination, and high ethical standards. Even with these traits, the officer will sometimes be referred to as a "climber," one who will climb right up the back of a peer for a piece of the carrot. He will be charged by his peers of being unethical as a climber. This, of course, will be a fall-out of pure ambition. However, the officer cannot afford to falter, he must play the game by the rules and must perceive himself as so doing regardless of peer pressure to do otherwise; for he must remain legitimate, ethical and principled.

Fifth, the officer must look on every opportunity and perceive it as a personal challenge. He must have a positive attitude toward competition by keeping the competition against the system and not his peers. As he wins and progresses, he will perceive himself to be stronger, better, and more capable for future tasks.

And finally, the officer must perceive others as they really are. His peers as allies, subordinates as a charge and his senior officers as superiors. For the peers, they are his strength and reinforcers. He must work closely with them for the organization's success. He must be alert to the fact that to compete against the system requires common ground and that all in that arena have accepted that ground for battle. For the subordinates, they are

his charge. He must be loyal to his group and be willing to back them in face of mounting opposition to specific issues. He must demonstrate his loyalty to his group and clearly show that his main interest is in the welfare of people and not things or missions. For the superiors—as his superiors which they are: He must treat them on a formal basis in the professional world and on the same basis in political surrounding because they are legitimately superior in grade. They are also legitimately superior in background, knowledge, and substance. While they are superior, the officer has the resounding duty to challenge his superiors on both ethical and professional grounds if the system would be enhanced by this effort.

It is important that each officer develop his own management philosophy and generate the temerity to keep it in motion while continuing to improve.

Col. R. S. Allred, Jr.  
Sandhills Chapter

## REVIEWING—AN AREA THAT INVITES INQUIRY

Much effort has been expended on improving the writing ability of Federal employees, but relatively little has been done to improve the equally difficult art of reviewing. Yet, anyone who has worked in a bureaucratic environment recognizes too late that inconsistent, irrational review practices are a major cause of bottlenecks and loss of productivity. Because of these poor practices, letters are released too late to achieve their purposes; typing facilities are overloaded; and originators of correspondence must give more attention to getting their material past the reviewers than to communicating with the addressees.

Reviews can be highly beneficial, and most writers will welcome reviews which catch errors that might cause embarrassment or extra work, but unfortunately many reviews result in nothing more than wasted effort and frustrations. Some of the causes of poor review practices are:

- *Personal aversions to certain words and phrases even though they are generally accepted by grammarians and writers.* A letter or document prepared in final form represents an investment of Federal funds. No one should nullify this investment because of purely personal preferences.
- *Excessive fastidiousness on grammar.* Many of the arbitrary rules of a generation ago are no longer accepted by progressive grammarians. Clear, effective writing, consistent with generally accepted modern usage, should be the criterion.
- *Exaggerated efforts to achieve brevity.* Brevity may be the essence of literary merit, but to achieve it requires work, time, and a measure of talent. A reviewer who rejects material because he finds that he is able to eliminate an occasional word or phrase is not saving work but causing it.

*Continued on page 37*



# The FMS Data Puzzle

by  
**James R. Woods and Thurman S. Dunn**

## THE FMS DATA PUZZLE

The authors have tried a novel approach to sharing some of the interworkings of the Foreign Military Sales (FMS) financial world. The complexity of that world has multiplied in recent years with the much-publicized growth in arms sales. Equally, however, new dimensions in Congressional control and public scrutiny have forced change in fields outside of "normal" appropriation accounting. As a gauge to the size of the puzzle, consider that FMS is the second largest source of federal cash receipts—second only to taxation. In comparison to sales volumes of large US corporations, FMS ranks 16th—just behind Atlantic Richfield and ahead of Shell Oil.

A complex data system such as that for the Foreign Military Sales (FMS) program is analogous in many ways to a picture puzzle. First, disconnected pieces by themselves are quite meaningless. Second, individual pieces, properly connected, form an entity, the value of which, synergistically, far exceeds the value of the separate pieces. Finally, if pieces are missing or cannot be connected, the synergism cannot be realized.

To understand or develop a complex data system such as for FMS, a "picture puzzle approach" is helpful. The typical picture puzzle includes a reproduction or model of the picture (front of the box) which may be formed if the pieces of the puzzle are placed together correctly. It is helpful to look carefully at this model prior to attempting to connect the pieces of the puzzle. Analogously, a pictorial model is extremely helpful in understanding or developing a complex data system.

Since the typical data manager is not blessed with a photographic memory, this model should be retained for further reference as the system develops. Once the total picture or model has been studied, an organized, methodical approach is helpful in putting a picture puzzle together. Some assessment must be made regarding completeness of the puzzle pieces. If the puzzle is new we trust the manufacturer has included all of the pieces. If the puzzle is not new, or if one does not trust puzzle manufacturers, a count may be made. Although this may seem like a minor issue, the disappointment of agonizing over hundreds of disjointed pieces only to discover that one or more pieces are missing can be quite acute. The analogy to a complex data system is once again evident. Some assessment should be made early in the process regarding the availability of data elements or "pieces" required to develop a total system.

Although it may not be absolutely essential, it is certainly helpful to sort or segregate the pieces of a picture puzzle into some meaningful patterns or groups. For example, all of the pieces containing a straight edge may be put in one group and those that do not into another. These two groups may be further subdivided by color. Similarly, once the total picture of a complex data system has been defined and the completeness of the elements assured, these elements should be organized into some meaningful patterns or subgroupings in order to facilitate understanding or development of the system.

Finally, the pieces of a picture puzzle must be sorted, resorted, connected and interrelated. This will most likely involve numerous references to the pictorial model. It may also require adjustments to the subgroupings. Pieces which looked like straight edges initially may not actually be or color differences may be too fine for totally accurate initial groupings by color. Once again, the analogy to a

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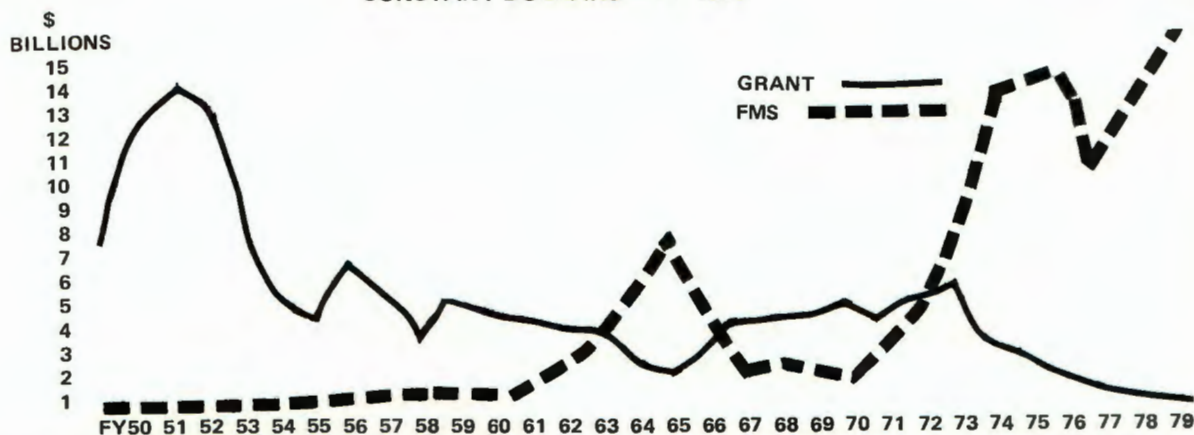
Thurman S. Dunn is a Systems Accountant, Plans and Programs Division, Plans and Systems Directorate at the Air Force Accounting and Finance Center, Denver, CO. Prior to his present duties, he served as a Supervisory Systems Accountant, Systems and Programs Division, Security Assistance Accounting Center. He served with the US Army Telecommunications Command as a Staff Accountant, Systems Accountant, and Operations Research Analyst at Ft Huachuca, AZ, from 1971-1978. He began his government career as an Auditor with the US Army Audit Agency. He possesses a BBA degree (accounting) from Eastern New Mexico University and a MS degree in computer science from the University of Arizona.





FIGURE 1

**FMS/GRANT PROGRAMS**  
**FY 1950 – FY 1979**  
**CONSTANT DOLLARS – FY 1978**



complex data system is evident. It is imperative in a large complex system that we keep our eye on the total systems model as we attempt to interrelate and connect the subsystems. Modifications may also be necessary to our subsystems since data elements may not be what they initially appeared—either in form or connectivity.

#### Testing The Analogy

In order to test the practical utility of the "picture puzzle approach," the authors elected to utilize it for a large complex system at the *Security Assistance Accounting Center (SAAC)*. The subject system is the billing and accounting system for the Foreign Military Sales (FMS) program operated by the Department of Defense (DOD). The objective of the billing and accounting system for the FMS is to provide for centralized financial management. The system entitled the *Defense Integrated Financial System (DIFS)* for FMS will be used by the SAAC in carrying out its assigned responsibility as the Financial Executive of the FMS program DOD-wide.

The FMS program is a multi-billion dollar program—\$88.3 billion of open, partially completed contracts on 30 June 1980—whereby the United States sells defense articles or services to foreign governments with the intent of assisting them in establishing and maintaining an adequate, self-defense posture consistent with their economic stability and growth. Its reason for furnishing such assistance is based upon the tenet that the security and economic well-being of friendly foreign countries is essential to the United States. A primary intent of the FMS program is that it be self-supporting, i.e., neither a profit nor loss to the US Government should be realized as a result of the program.

Since 1973, the absolute growth in the value of FMS created a series of disconnects between DOD financial managers and their management information. The principal cause is the transition over the past seven years from security assistance Grant Aid to FMS. Graphically, the portrayal

in Figure 1 of both assistance programs since 1950 shows the environmental transition for DOD financial managers.

Although the impact of FMS growth appears to hit in 1973, the lag in establishing procurements for long leadtime material delayed the real shock on financial managers until late 1974. By mid-1975, however, with new sales approaching \$10 billion a year and with undelivered orders totalling almost \$24 billion, DOD managers found themselves facing financial management of a staggering commercial-type enterprise with archaic accounting and billing systems unsuited for the job ahead.

Importantly, the existing systems for FMS were "piggy-backed" on the old Grant Aid systems without methodology to anticipate and provide sufficient cash flow from the FMS purchasers to keep pace with escalating FMS outlays. The evolution failed to draw a simple distinction—US Government funds accompanied Grant Aid orders, but did not accompany FMS orders. Instead, fund requirements had to be forecasted, billed, collected, and accounted. This added an unprecedented dimension. DOD managers had to contend with the intricacies of the FMS purchasers budgetary systems.

So, these are the pieces of our puzzle—fragmented fiscal controls, disjointed logistical and accounting systems, missing forecast procedures, and dissimilar billing methodologies. Every puzzle begins with its pieces in some sort of disarray. The FMS data puzzle is no exception. Here, however, the pieces are theoretical, intangible pieces: controls, systems, and procedures. Five years of audits and studies demonstrated various weaknesses in DOD management of the FMS "picture," let us say a lack of fitting the pieces together, with resulting violations of DOD policies and US fiscal rules; over-obligations and over-expenditures; inadequate, nonstandard billings to FMS purchasers; and incomplete interfaces between logistical and financial systems.

A major DOD effort to at least sort and identify the  
*(Continued on next page)*



various pieces was the centralization of FMS billing at the Security Assistance Accounting Center, Denver, Colorado, in November, 1976.

As the Financial Executive for the FMS program, SAAC must maintain a single, double-entry accounting system composed of interrelated general and subsidiary ledger records. The SAAC also controls the reporting of FMS delivery and financial performance to FMS customers and to Executive and Legislative organizations and performs the central trust fund accounting, and functions for all DOD agencies involved in the FMS program. Outputs of the FMS system must, further, provide management information for use by the President, Congress, the Office of Management and Budget (OMB), the National Security Council, The Office of the Secretary of Defense (OSD), DOD components, and authorized governments.

The FMS case is the nucleus of all FMS activity. An FMS case is a contractual agreement between the US and an eligible foreign country or international organization Documented by DD Form 1513, "Letter of Offer and Acceptance" (Figure 2).

Referring to Figure 2, it may be noted that the DD Form 1513 consists of four major parts. First, blocks 1 through 3 identify the purchaser and the unique case identifier. Second, blocks 4 through 11 include signature blocks for officials authorized to commit the US Government to the sale of items and services under the FMS program. The next section including blocks 12 through 28, describes the materiel or services being sold and delineates the terms of the sale. Finally, blocks 29 through 37, when properly completed, constitute the foreign government's acceptance of the sales offer.

FMS responsibilities are executed within the Department of Defense as follows:

- Letters of Offer as well as related price and availability data are prepared within the military departments themselves. However, Letters of Offer must be processed through the Defense Security Assistance Agency (DSAA) prior to the time they are provided to prospective purchasers so that DSAA can, among other things, ensure the proposed sale is properly approved.

- After the Letter of Offer is approved, it is forwarded to the purchaser. When the purchaser signs the Letter of Offer, a copy of the Acceptance (together with any required initial deposit) is forwarded to the SAAC—over 6,000 new cases were accepted last year and over 10,000 more are still active from prior years.

- Assuming the Letter of Acceptance is in order, required initial deposits have been received, and a request for Obligation Authority from the implementing DOD agency has been received, SAAC issues *Obligation Authority* to the military departments. The military departments cannot implement an FMS case until Obligation Authority has been received from the SAAC. The initial deposit and all follow-on collections will be deposited in a Trust Fund account in the purchaser's name.

- An integral part of the government-to-government contract is the requirement to collect in advance. By US public law, DOD must bill and collect monies for FMS before deliveries are made or costs are incurred. The SAAC

UNITED STATES DEPARTMENT OF DEFENSE OFFER AND ACCEPTANCE				(1) PURCHASER (Name and Address) (Zip Code)	
(2) PURCHASER'S REFERENCE		(3) CASE IDENTIFIER			
<b>OFFER</b>					
Pursuant to the Arms Export Control Act, the Government of the United States (USG) hereby offers to sell to the above purchaser the defense articles and defense services listed below (hereinafter referred to collectively as "items" and individually as "defense articles" or "defense services"), subject to the terms contained herein and conditions set forth in Annex A, and to such other special terms and conditions which may be a part of, and appended to, this Offer and Acceptance.					
(4) Signature (US Dept./Agency Authorized Representative)				(19) Countersignature (Office of the Comptroller, DSAA) (Date)	
(8) Typed Name and Title				(10) Typed Name and Title	
(6) ADDRESS				(11) DSAA ACCOUNTING ACTIVITY	
(7) DATE					
(8) THIS OFFER EXPIRES:					
NOTE: This offer must be accepted not later than the date shown in block 8. Within five (5) days of its acceptance, you must notify the Office of the Comptroller, DSAA. Otherwise, this Offer is cancelled and retention of initial deposit by offering pending disposition instructions shall not be deemed a waiver of such cancellation. Request prompt notification if this offer is rejected.					
ITEM NO. (12)	ITEM DESCRIPTION (including line number if applicable) (13)	QUANTITY (14)	UNIT OF MEASURE (15)	ESTIMATED UNIT COST (16)	ESTIMATED TOTAL COST (17)
(21) ESTIMATED COST				\$	
(22) ESTIMATED PACKING, CRATING, AND HANDLING COST				\$	
(23) ESTIMATED GENERAL ADMINISTRATIVE COSTS				\$	
(24) ESTIMATED CHARGES FOR SUPPLY SUPPORT ARRANGEMENT				\$	
(25) OTHER ESTIMATED COSTS (Specify)				\$	
(26) ESTIMATED TOTAL COSTS				\$	
(27) TERMS				(28) AMOUNT OF INITIAL DEPOSIT - \$	
<b>ACCEPTANCE</b>					
(29) I am a duly authorized representative of the Government of _____ and upon behalf of _____ said Government, accept this offer under the terms and conditions contained herein (30) this _____ day of _____ 19 _____				(33) MARK FOR CODE	
(31) SIGNATURE				(34) FREIGHT FORWARDER CODE	
(32) TYPED NAME AND TITLE				(35) PROCURING AGENCY	
				(36) DESIGNATED PAYING OFFICE	
				(37) ADDRESS OF DESIGNATED PAYING OFFICE	

Figure 2

must have therefore, a current, complete forecast of anticipated costs for each contract.

- After the military departments receive Obligation Authority, implementing directives are prepared and sent to performing activities such as commodity commands. The commodity commands prepare requisitions and purchase orders that direct shipment or procurement of the materiel/services from DOD depots or contractor facilities, as required. When the depots or contractors release materiel, they furnish advice of delivery to the commodity command for subsequent reporting to the SAAC. The SAAC, in turn, posts the delivery to the country's billing statement—660,000 each quarter totalling over \$1.6 billion.

- A distinction must be made to insure clear understanding. The implementing agency must elect to (i) finance the FMS order through its own appropriations with reimbursement from the Trust Fund on all contractual documents. In the former, typically, SAAC disburses the Trust Fund money to the implementing agency based on reporting. In the latter, the implementing agency disburses Trust Fund monies and reports the disbursement to the SAAC. Overall, the SAAC and the agencies disbursed \$7.1 billion in fiscal year 1979.

- The SAAC bills the FMS purchaser quarterly. Each statement accounts for deliveries and payments made on the purchaser's behalf and requests payment in advance for costs anticipated to be incurred during the future quarter.



Although it may not be readily apparent, we have "painted" a word picture or model of the FMS data system. However, in deference to the old adage that "a picture is worth a thousand words," *Figure 3* is provided to augment our word picture and put it in a form similar to the picture puzzle reproduction or pictorial model discussed earlier.

Very succinctly, the DIFS must be able to digest all FMS input data, process it, and provide billings, management reports, accounting reports and ad hoc inquiries in a timely and accurate manner. Implicit in this requirement is the need to record transactions as they occur, or as modification of their occurrence is received, in order to maintain a financial data base adequate for providing the required outputs. The automated processing for maintaining the FMS financial data base will require an average of 25 separate initial and recycle processes per month with approximately 500,000 transactions encoded by accounting technicians throughout the processing stream. These processes must be accomplished in a 10- to 15-day cycle.

Do these 500,000 input transactions provide all of the data we need to produce the system depicted in *Figure 3*? Recall that we asked a similar question regarding the completeness of the puzzle pieces in developing a picture puzzle. Unfortunately, the answer to this question is not as easily attainable in systems work as it is in putting together a typical picture puzzle since one is usually provided with the number of puzzle pieces in a picture puzzle and need only count the available pieces or simply accept the count given—whereas, this end count is not provided in systems work. To make the analogy more striking it would be interesting to speculate on the technique that one might use to determine whether all of the puzzle pieces were present for a picture puzzle if we were not given the number that should be there. Suffice it to say that the assessment of the completeness of input data elements available for our FMS system is complex and must be made at a more detailed level than that depicted in *Figure 3*.

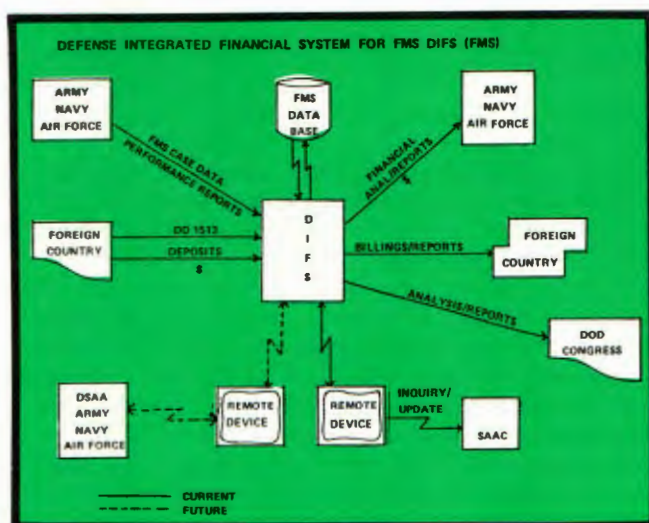


Figure 3

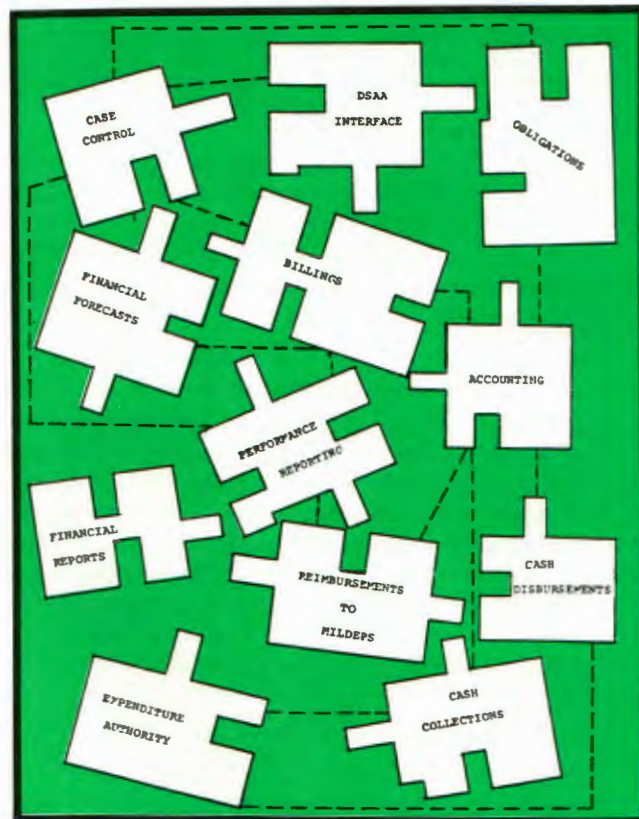


Figure 4

This leads us into the next logical step in our "picture puzzle approach." Namely, that of establishing meaningful patterns or subgroups from the total system model in *Figure 3*. Recall that we suggested grouping by straightedge versus non-straightedge—or sorting by colors would be helpful prior to attempting to put a picture puzzle together. The following subgroupings or subsystems have been identified from our "total systems model" in *Figure 3*:

- **Case Initialization and Control** — The case control function includes case establishment, revision, performance update, closure, cancellation, rejecting, and deletion. Processing required to accomplish all other functions must interface with case control.

- **Financial Forecast** — Estimates by FMS case, of quarterly fund requirements to pay for performance against the case. Forecasts are made for each quarter, as required through the life of the case up to 19 calendar quarters.

- **Performance (Delivery) Reporting** — Detailed reporting of materiel, services, or progress payments that demonstrate deliveries or performance against FMS cases by the military departments.

- **Billing** — Billings to Foreign Governments for materiel and services to be provided them under the FMS program.

- **Accounting** — The accounting subsystem basically provides for the maintenance of a single double-entry accounting system composed of interrelated general and subsidiary ledger records of verifiable accuracy. Five separate functions are involved in the accounting subsystem; (i) Accounts Payable and Command Pay processing, (ii) Accounts Receivable (iii) Cash Control (iv) General Ledger processing, and (v) Program Control (obligations).

- **Management Reporting** — Ad hoc and recurring reports required in addition to normal accounting performance and billing reports to effectively manage the FMS



program and respond to inquiries from foreign countries US Government officials.

● **1200 Reporting** — The 1200 system is an FMS management information system maintained by DSAA. Integration of this system and DIFS is essential to accurate and consistent reporting at all levels.

The subgroups or subsystems of the FMS Data Puzzle are shown in *Figure 4*. Starting with some half million data pieces monthly, an extensive effort was required in the DIFS project to sort and assemble these pieces into the pattern in *Figure 4*.

The dotted lines in *Figure 4* represent interfaces or connections which are necessary to operate the FMS model shown in *Figure 3*. However, as indicated in *Figure 4*, the FMS Data Puzzle is still disjointed. In practice, the piecemeal interfaces are extremely time consuming and difficult to control. This leads to the final, and perhaps the most important phase of our data puzzle, that of connecting the subgroups or subsystems. These connections are accomplished in *Figure 5*.

#### The Forest Or The Trees?

In order to demonstrate the synergistic effect of this last phase of our data puzzle, consider for a moment a picture puzzle of a beautiful mountain scene divided into twelve major segments as our puzzle was in *Figure 4*. Then imagine that these major segments are connected as ours are in *Figure 5*. The first image that comes to mind might resemble *Figure 5* which shows the connected major segments. However, once connected, these segments would soon fade and the beauty of the mountain scene would take its place. Analogously, the segments of *Figure 5* quickly fade and are replaced by the FMS model in *Figure 3*.

Hopefully, the "picture puzzle approach" will assist you in gaining a fair understanding of the highly complex FMS data system. The authors feel that it is a logical method for analyzing a complex system.

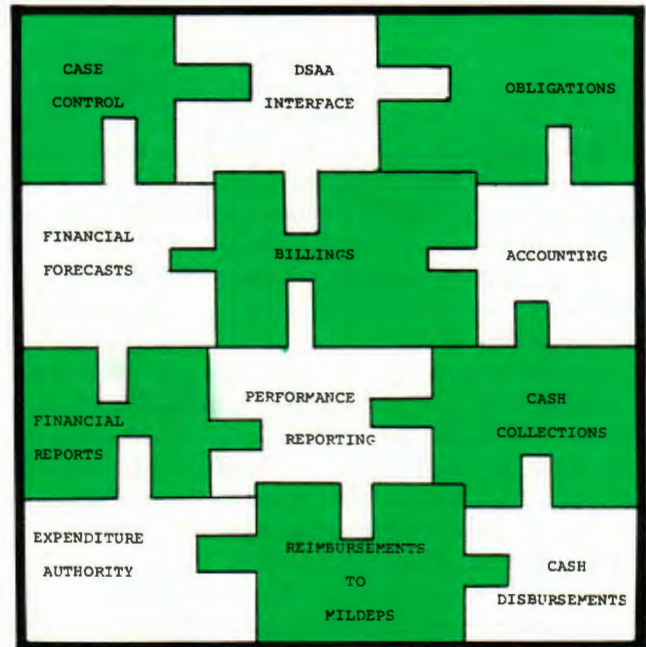


Figure 5

Those more familiar with systems design might have noticed some similarities between the "picture puzzle approach" and a systems design technique currently being used by many systems designers called the "structured" or "top-down" approach. Actually, there is a close resemblance between the two. The "structured" approach generally consists of three primary functions: The building of a logical model of a system at the general level; successive refinement of this model into its detail components and; iteration—or the adjustment of the model as the detail components are sorted, grouped, and connected to form an operating system. The "picture puzzle approach" follows the same pattern but hopefully is more intuitively acceptable to the non-structured analyst. □





# **EDUCATION COMMITTEE REPORT**

## **Professional Military Comptroller School**

by LTC Leon S. Barwick, Jr., USAF

In 1966 the Assistant Secretary of the Air Force (Financial Management) established a joint service group to study financial management education in the Department of Defense. The group issued a report in March 1967 which resulted in the establishment of the Professional Military Comptroller School (PMCS). In 1972 the Comptroller of the Air Force, with the concurrence of the Assistant Secretary of Defense (Comptroller), opened the school to members of the Army, Navy, and Defense Agencies as well as the Air Force.

The PMCS is considered by many to be the capstone in financial management education within the Department of Defense. It is conducted at the graduate studies level and has earned the American Council on Education's recommendation that graduates be awarded 19 semester hours of upper level undergraduate and six semester hours of graduate credit.

The purpose of PMCS is to develop in selected personnel a capacity to evaluate and adapt the role and tasks of the comptroller to the economic, political and social environment of the military organization and its mission. It broadens the professional horizons of the student by providing a comprehension of the major contemporary problems, issues, and national policies which bear on the decision making process in the efficient and effective allocation of resources to and within the defense establishment. It enhances the individual capacities to serve effectively as a comptroller generalist by providing a comprehension of the academic disciplines—the arts and sciences—which are prerequisite in the practice of comptrollership at a high level of professional competence in the Department of Defense.

The course is organized in two broad curricula areas: Applied Comptrollership and Comptroller Arts and Sciences. The Applied Comptrollership area is further divided into three areas: Financial Management at the Executive Level, Comptrollership in the Operating Activities, and Comptrollership in the Acquisition and Support Activities. The Comptroller Arts and Sciences area includes: Analysis for Resource Management, Executive Communications, Economics for Resource Management, Human Resource Development, and Information Management.

Lectures and discussion are presented by both faculty members and guest speakers. The guest speakers are frequently top level executives from the DoD and industry; thus they provide a high degree of credibility and authenticity. Seminar discussions provide students the opportunity to relate personal experiences to the concepts discussed.

While certain differences do exist among the services, the general prerequisites for PMCS selection are contained in DoD 5010.15-C. The PMCS is open to well-qualified, high potential personnel in the grade of major (O4) and GS-12 and above (O3s and GS-11s may be accepted on an exception basis). Nominees must have an actual or anticipated assignment as comptroller, deputy comptroller, or assistant comptroller at camp/base/post/station or higher levels or as the head of a branch, division or directorate in the comptroller organization who may be admitted on a limited basis. The course is designed to contribute to the professional development of senior military and civilian professionals who serve as key officials within a comptroller organization. It also contributes to the development of financial management expertise of senior military and civilian officials who are assigned to functional areas outside the comptroller organization but are responsible for the management of defense resources. These personnel contribute to a healthy mix by stimulating a cross-fertilization of ideas. Other prerequisites are: a fully qualified comptroller MOS/AFSC or skill specialty, or a baccalaureate degree in business administration or a related field, and a minimum of three years career retainability at the time of selection.

Each of the services have established student selection procedures as outlined below:

### **Air Force**

Air Force nominations from installation level are forwarded through and screened by the major air command. Nominations from major commands, separate operating agencies and Headquarters USAF are transmitted directly to the central selection board secretary at the Professional Military Comptroller School. Approximately eight weeks before the class start date, the PMCS Commandant, acting on the delegated authority of the Comptroller of the Air Force, convenes a central selection board. The board consists of five voting members; these include the Commandant, a PMCS faculty member appointed by the Commandant, a Senior Executive Service civilian appointed by the Deputy Comptroller of the Air Force, a "Palace Dollar" representative from the Military Personnel Center and a major command comptroller who is appointed by the Deputy Comptroller of the Air Force. Another PMCS faculty member serves as secretary/recorder and is a non-voting member of the board. Each nominee is awarded points based on an objective scoring of information provided on the nomination form. Each



board member then makes a subjective evaluation and awards points based on the objective evaluation, statements or letters of advocacy, or personal knowledge. Points are totaled and the nominees are arrayed in rank order from high points to low points. The cutoff for selection is determined by the board's assessment of the overall quality of all nominees. Nominees on both sides of the cutoff are reconsidered by the board and "primary" and "alternate" selectees are then designated.

The Air Force contact for questions concerning the Professional Military Comptroller School is Lieutenant Colonel Leon Barwick (205) 293-7441, AUTOVON 875-7441.

## Navy

The Department of the Navy's participation is implemented by SECNAV Instruction 5300.21 (Series). Criteria for selection are as outlined in the Defense Management Education and Training (DMET) Catalog, DoD 5010.16-C. All nominees use the DD 1556 to apply. The administration of the program has been delegated to the Commander, Navy Accounting and Finance Center, Washington, DC.

When the schedule for the fiscal year is received from the School, Office of Navy Comptroller provides the dates, deadline dates (6 weeks prior to each class offering), quota allocations (if it varies from the SECNAVINST) and nomination procedures to: Chief, Naval Operations, Marine Corps and Office of Naval Research. Office of Navy Comptroller also retains some quotas per class for the Secretariat offices and their field activities. Each major quota holder announces and selects nominees to fill their particular quotas in their own way:

*Office of Navy Comptroller*—By memorandum, all financial management offices within the Secretariat and their field activities are advised of the course dates for the fiscal year and are requested to submit nominations to: Commander, Navy Accounting & Finance Center (NAFC-3), Washington, DC 20376. Reminder memos are also sent out prior to each class. Final selection is made by the Director, Office of Career Management.

*Chief, Naval Operations*—After CNO is advised of the course schedule, CNO distributes the quotas for each class among the major claimants. This is done by OPNAV Notice or by letter. The CNO deadline for nominations is established to be approximately 2 weeks in advance of the NAVCOMPT deadline. Approximately 2 weeks prior to the CNO deadline for a particular class, CNO sends a message to the major claimants and other selected major commands, as a reminder, and possibly making some changes in the quotas previously allotted.

Major claimants are responsible for announcing the course to their activities, receiving the nomination forms, selecting the nominees and forwarding the selected nominations to CNO. All CNO activities wanting to be considered for the school must submit their nomination forms via the chain of command to their applicable major claimant. (Example: A Shipyard would send the DD 1556 to NAVMAT via NAVSEA.)

*Office of Naval Research*—ONR financial management employees annually develop Individual Development Plans (IDP), at which time they have the opportunity to request the school. When ONR receives the letter from NAVCOMPT, ONR notifies Headquarters and Field Activities by letter of the spaces reserved for ONR, giving the addressees a deadline for nominations. Nominations are to be sent to: Chief of Naval Research (ONR-521), Arlington, VA 22217. Review and final selection is made by the ONR Director of Financial Management/Comptroller.

*Marine Corps*—After notification of dates from NAVCOMPT, Headquarters Marine Corps issues a Marine Corps Bulletin to all activities announcing the course, giving the schedule, and requesting that nominations be sent to: Commandant of the Marine Corps (MC-OTTI-20), Washington, DC 20380. After receipt of the nomination forms prior to each class, they are sent to the Fiscal Director, Headquarters Marine Corps, for final selection.

All selected nominations are then provided to the Navy Accounting and Finance Center for submission to the School.

Points of contact, within the Navy, for questions concerning the Professional Military Comptroller school may be directed to:

NAVCOMPT—Mrs. Gander, (202) 695-2587,  
Autovon 225-3587

CNO—Mr. Bauserman, (202) 697-7819,  
Autovon 227-7819

ONR—Mr. Hennessey, (202) 696-4283,  
Autovon 226-4283

MARCORPS—Major Davis, (202) 694-2444,  
Autovon 224-2444

## Army

Course announcements are made by message to selected major command Comptroller Career Program Managers. Comptroller careerists on the Army staff, and other agencies are notified through a variety of means to include announcement in the All Points Bulletin, Personnel Center assignment officers, and servicing Civilian Personnel Offices.

Selection criteria for Army nominees is specified in the Comptroller Career Program Training Catalogue, Office of the Comptroller of the Army. Nominations are consolidated by each agency or major command in their priority order for selection. Criteria includes: be in grade of LTC/GS-13 and above (experienced MAJs and high potential GS-12s considered), a baccalaureate degree in business administration or related field, and at least 3 years career retainability. SECRET security clearance required. Waivers must be requested for any nominees not meeting the minimum criteria.

Selections are made on a best qualified basis with priority given to nominees in-transit to an actual or anticipated assignment as comptroller, deputy, or key comptroller position at an installation or higher level. Final approval of the recommended list of selectees is made by the Office of the Comptroller of the Army. The contact for questions regarding PMCS is LTC Graham Johnson (205) 293-7441, Autovon 875-7441.



## Continued from page 29

- *Change to justify the review.* There seems to be a distinct tendency on the part of some reviewers to feel that the value of their review is in direct proportion to the number of improvements they are able to make. Most written material can be improved ad infinitum, but we are not required to turn out literary gems.
- *Vague speculation on what levels of review will accept.* Here we are drawing a sharp distinction between knowledge and speculation. Not infrequently reviewers will turn back material which is acceptable to them but possibly might be rejected by someone at a higher organizational level. Few second guessers can boast high validity coefficients.
- *Refusal to make simple changes on memos and letters.* Many of us find it difficult to accept this practice even though it is authorized generally by most authorities. If the guidelines are followed, work will flow more rapidly,

and the vital interests of the government will be better served. No one really believes that the government is composed of anyone other than ordinary mortals who occasionally make errors, change their minds, etc. The image we create will be improved when people see that we are trying to save money and speed up processes of government.

- *Inconsistencies of reviews.* Every originator of written material is aware that his ability to get his material by reviewers is dependent to some extent on the changing moods of reviewers. If a reviewer is going through a period of insecurity, it may be extremely difficult to obtain his approval on a simple memo. To avoid, or at least minimize these inconsistencies, one simple criterion is suggested:  
"Will the letter or document achieve the objective for which it is intended without causing delay, confusion, ill-will, or reflecting unfavorably on the originating office or agency?"  
If a letter or document meets this cri-

terion, it should be approved. Of course, efforts should be continued to improve correspondence, but this can be achieved best through instruction and practice. It need not and should not be achieved at the expense of needlessly delayed essential communications.

- *Lack of explicit instructions.* Very often reviewers do not understand or lack direction in the manner documentation should be prepared. Sometimes management will spend countless hours preparing instructions for writers and reviewers to follow, and then half-way through the production process the ground rules are changed, confusing everyone. Let's face it, writers cannot produce desired results, and reviewers cannot evaluate properly without clear, standardized, concise instructions. These instructions must be consistent with good writing practices which will not change from day-to-day.

Dr. Bob Rodman  
Office of the Assistant Secretary  
of Defense (Comptroller)



**CSC BOOSTS PROFESSIONAL GROUPS.** The U.S. Civil Service Commission has come out solidly in support of qualified professional associations which draw members from, and relate to, the Federal Civil Service career fields. Federal Personnel Manual, Chapter 252 described professional associations as including any such organization whose main purpose includes such things as *improving the state-of-the-art, issuing technical publications, and furthering the career development of members.* CSC finds that this sort of activity is beneficial, and authorizes certain support by agencies. Examples of support are quoted as (1) The use of agency messenger or mail service and agency bulletin boards for publicizing meetings; and (2) The use of agency facilities for meetings. The letter also suggests that agencies may permit employees, in appropriate cases, to use agency equipment or clerical services for preparing papers to be presented at professional conferences or symposia or published in professional journals. Re-emphasized is the authority under the *Government Employee Training Act* to pay expenses of employees to attend professional organization meetings when such attendance is for the purpose of employee development or directly concerned with agency functions or activities and the agency can derive benefits from employee attendance at such meetings.





## **MBO II — A System of Managerial Leadership for the '80's**

by

George S. Odiorne

Fearon Pitman Publishers, Inc., Belmont, California 94002, 1979

*Reviewed by:* Dr. Joseph A. McHugh, Chairman, Department of Accounting and Finance, University of Massachusetts-Boston

In *MBO II* Professor Odiorne provides a very valuable update of the systematic approach to management known as "Management By Objectives" (MBO). Much has happened since the original *Management By Objectives* was published in 1965. Until that time, MBO was considered primarily an innovative means of performance appraisal. But in his original edition, Professor Odiorne proposed a new interpretation that MBO was a system of management. And as he says, "that notion proved prophetic because it has grown into such a system." *MBO II* reflects the evolution and growth of management by objectives; it reinforces the concept of MBO as a managerial system and more importantly, it provides many insights with respect to the applications and implementation that have taken place. Making complex systems work is the primary task of today's manager—one which is challenging, compelling and perhaps most of all, frustrating. Odiorne proposes a systems approach to management which will simplify those tasks. The book is thoroughly laced with examples of real-world applications in both business and government which enable the reader to envision how the system can be employed effectively. It's divided into five parts: Part I discusses management by objectives as a philosophy and links that philosophy to the general theory of management. Chapter 3 discusses a very timely topic: Stemming the Decline of Risk-Taking and Innovation." Part II discusses "MBO: A Systems Approach to Management," and describes (a) how to look at an organization as a system, (b) how to install MBO, and (c) how to measure organization performance. Part III, "Goal Setting Techniques," describes what success-

ful goal-setters do, how to set indicators, how to solve problems by objectives and most importantly, how to set creative goals. Part IV, "MBO in Operation: The Subsystems Affected," looks at the various subsystems in an organization; for example, salary administration, zero-based budgeting, performance review, etc. And finally, Part V discusses the hard part of "MBO: Making It Work." In this section, Odiorne addresses (a) the politics of implementing MBO, (b) the problem of participation in goal-setting, (c) how much is correct, (d) how MBO can provide an antidote to future shock and perhaps the most valuable part of the book, the case studies. He provides nine cases with nine precepts, including an example of MBO in state government.

An extremely important feature for scholars and practitioners alike is the set of notes at the end of the book. These reflect specific references to the materials contained in each chapter. Whether the problem is to learn more about MBO from an academic standpoint or to learn more about how to implement it, these notes provide a very fertile resource.

In his final chapter, Odiorne addresses the question of whether MBO will survive or not. He points out that

"for more than twenty years people have been falling in love with the MBO idea, adopting it as their own, only to turn unfaithful in the long haul of marriage. Strawman killings surrounding MBO have occurred ever since it became popular and useful. Yet, despite a decade of obituaries, it continues to grow more pervasive and has become almost orthodoxy in management."

He concludes that in entities where the objectives are financial in nature, MBO has persisted; where goals are nonfinancial, it's too easy to let things slide back into more traditional ways of doing things. Yet when one considers current pressures for productivity, and the pressures for maintaining profits in business, MBO will certainly survive. Given the pressure for accountability for the use of government resources, public sector managers also are being required to install better systems of control. That means a methodology is required which provides clearer definitions of strategic objectives and tactical goals. MBO fills the bill! Odiorne has provided a highly valuable contribution toward increased understanding of managerial problems by proposing a systematic approach to improving management performance.

## **THE DEFENSE INDUSTRY**

by Jacques S. Gansler

MIT Press, 28 Carleton St., Cambridge, MA 02142, 346 pp., \$19.95.

Jacques Gansler is in a unique position to examine the defense industry. His book draws on over twenty years of personal experience in technical and management positions with three corporations within the military-industrial complex and on his position as Deputy Assistant Secre-



tary of Defense for Material Acquisition. He is currently vice-president of The Analytical Sciences Corporation in Washington, D.C., where he conducts economic and management studies for the federal government.

The book covers the Defense industry and the U.S. economy, tracing its historical past and the effect expenditures have on the economy. All of the problems associated with Defense procurement are reviewed. What makes this book outstanding is that following the analysis of past performance is a chapter on proposed solutions to what the press and Congress have called poor management on the part of the Department of Defense. Senator William Proxmire, commenting on Gansler's work in the Defense industry, quoted in the Congressional Record, "... a superb analysis of our Defense problems. It not only impressed me but more importantly, it impressed my staff ... They thought it was the best thing they had read for a long time in this area ..."

**THE DEFENSE INDUSTRY** highlights such inconsistencies and problems as: excess production capacity in some sectors and insufficient capacity in others; exorbitant profits for prime contractors and insufficient financial returns for subcontractors and suppliers of critical parts; increasing reliance on military sales to other countries and on supplies of parts and materials from foreign sources, resulting in conflicts between U.S. economic and political interests; inadequate planning and preparation; and the increased complexity of military equipment, which has led to an unacceptable response time to emergency military demands.

This book could well be a text for those in the financial management community who work with the billions of dollars spent annually to procure military weapons systems. It should be required reading for all cost analysts as well as those in budget procurement.

## ARMS & THE MEN, The Arms Trade and Governments

by Basil Collier

Hamish Hamilton, North Pomfret, VT 05053, 315 pp., \$35.00.

Basil Collier served from 1940 to 1945 as an intelligence officer at Fighter Command and SHAEF. At the end of the war in Europe he was appointed Air Historical Officer, Fighter Command. After leaving the RAF he joined the Cabinet Office as one of the official historians of World War II.

The author's report on military weapons production and procurement is a British view of what Jacques Gansler gave in **THE DEFENSE INDUSTRY**. Many of the great arms manufacturers such as Armstrong, Krupp, Lockheed, Vickers and Messerschmitt are discussed. This book deals with some of the modern problems such as the economic pressures which induce the great powers to sell arms, apparently unscrupulously, to small countries in the trouble spots of the world. It is a highly readable book and points out the similarities between the British production of arms, largely Government-controlled, and that of the United States' free enterprise. The book is well-documented and presents a fascinating story of the international trade in arms, the relations that have existed at various times between arms manufacturers and governments, and the means by which nations have equipped themselves for war.

Basil Collier examines the truth behind the charge occurring between wars that arms manufacturers tried to increase their wares by spreading false reports and fomenting war scares.

This is an outstanding book with a British viewpoint.

I hereby apply for membership in ASMC and enclose \$15.00 for annual membership dues.  
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**ASMC PROFESSIONAL DEVELOPMENT INSTITUTE.** This is the new name for our annual training program, heretofore known as the ASMC National Symposium. The change more nearly describes this outstanding job-oriented event. Members are reminded that we comply with the guidelines set forth in the *Government Employee Training Act* and Chapter 252 of the *Federal Personnel Manual*. In addition, expenses that are not reimbursed can be claimed on reports to the IRS.

**LETTER TO THE EDITOR COLUMN.** This is a new column by popular request. If you have something that you'd like to say—send it along. All letters should be signed and those published will have your name unless you request it to be withheld.

**CHAPTER OFFICERS.** Please keep National Headquarters informed of current officer's telephone numbers, addresses, etc.

**TELEPHONE NUMBER. National Headquarters: Area Code 703-780-6164.** I have a recorder to answer when I'm not able to answer immediately. Please leave your name and commercial telephone number and I'll get back to you as soon as possible.

**LAPSED MEMBERS:** Members who have not paid their 1981 (30 Sep 80-1 Oct 81) dues have been placed on inactive list.




Edmund W. Edmonds, Jr.  
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# **1981 ASMC**

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Welcome to St. Louis and the 1981 Professional Development Institute

The Gateway Chapter is honored to host this year's Institute. The Professional Development Institute Committee has worked closely with the National Office to arrange a program which lives up to the Institute's theme "Professional Comptroller-ship — Gateway to Mission Effectiveness". We believe the speakers and workshops that have been arranged offer a unique training opportunity assured to enhance the professionalism of all who attend.

We are also proud of St. Louis and are confident that you will find it to be an ideal setting for this year's Institute. St. Louis has a tradition of hospitality. From the historic riverfront and the Arch, symbolizing St. Louis' role as the Gateway for Westward Expansion, to Forest Park, site of the 1904 World's Fair, St. Louis offers a wealth of attractions sure to appeal to visitors.

On behalf of the entire Gateway Chapter we wish you a professionally rewarding and enjoyable experience as you take part in the 1981 Professional Development Institute.



**Mr. Paul B. Morton**  
Chairman  
1981 Professional  
Development Institute



**Mr. Wayne Wiskow**  
President  
St. Louis Gateway Chapter

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USAF (Ret)  
EXECUTIVE DIRECTOR



# GUEST SPEAKERS

**KEYNOTE SPEAKER**  
**0900, Thursday, 28 May, 1981**  
**DR. HERB TRUE**



Dr. Herb True has been an educator at the University of Notre Dame as professor, plus U. S. Army Management School and the Management Center of Cambridge. Dr. True holds degrees from Oklahoma University (BA), Northwestern University (MS) and the University of Iowa (PhD). Dr. True also has to his credit - as an author, two best selling humor books - as a recording artist, 7 RCA Custom Records, 4 Success Motivation Institute Cassettes, & 4 Idea Records - as a Radio-TV personality he is featured on United Airlines In-Flight Entertainment Channels, on Ford Dealer's Video TV network and on ABC, CBS and NBC TV - and also as a consultant to IBM, Xerox, Ford, TWA, GE, DuPont, GM, the President's Association and many others.

**LUNCHEON SPEAKER**  
**1230, Thursday, 28 May, 1981**

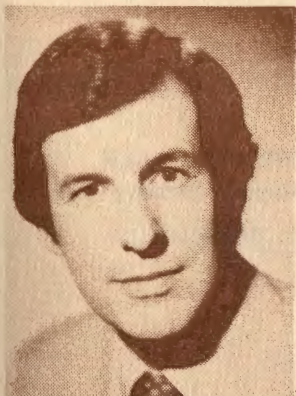
**PROFESSOR ALICE BANTE**  
**B.S., A.M., St. Louis University**



Professor of Social Sciences teaching speech communication in organizational development programs at St. Louis University, St. Louis Community College at Meramec, Corporate Industry, the Federal Government and St. Louis Police Academy.

Certification of Clinical Competence in American Speech and Hearing Association.





**MORNING SPEAKER**  
**0800, Friday, 29 May, 1981**  
**MR. CHRIS WALLACE**

NBC News Correspondent Chris Wallace was on the front lines of the 1980 Presidential race -- traveling to 40 states to report on the campaign from the Iowa caucuses in January through Ronald Reagan's November victory celebration in Los Angeles.

Prior to the campaign, Wallace was a principal reporter for the NBC News Magazine "Prime Time Sunday".

Wallace has more than a decade of journalistic credentials -- both in print and broadcasting -- from the local to the national level. He joined NBC in September, 1975 as a reporter with WNBC-TV in New York. During his three years there, he headed an investigative unit that won a Peabody Award -- and earned the 1977 New York State Associated Press Broadcasters Award for Best Enterprise Reporting.

He was born in Chicago in 1947. He was graduated from Harvard University in 1969. The same year, he was hired as a reporter by the Boston Globe. He was also a commentator on Boston's public TV station, WGBH. During his final year with the Globe, he was the newspaper's national reporter.

**0900, Friday, 29 May, 1981**  
**MR. LAWRENCE KUDLOW**

Lawrence A. Kudlow is a graduate of University of Rochester and Princeton University.

Mr. Kudlow is presently the Assistant Director - Economic Policy Office of Management and Budget.

Previous affiliations include; Chief Economist and Manager of the Economics Department at Bear Stearns & Co., Member of the Board of Trustees, Lincoln Savings Bank, New York, New York., Reagan Transition Committee, OMB - Treasury Working Group and Director and Member of Executive Committee, Claremont Economics Institute.



**LUNCHEON SPEAKER**  
**1230, Friday, 29 May, 1981**  
**MR. ARTHUR ZEIKEL**

Arthur Zeikel is President and Chief Investment Officer of Merrill Lynch Management and is responsible for determining Investment Policy and Portfolio Strategy. Mr. Zeikel has Co-Authored an Investment Text, "Investment Analysis and Portfolio Management", published by Dow Jones-Irwin, Inc. and used in over 250 colleges and universities throughout the United States.



**AWARDS BANQUET SPEAKER**  
**1845, Friday, 29 May, 1981**  
**DR. JACK BORSTING**

Dr. Jack R. Borsting was nominated by President Jimmy Carter on 11 June, 1980 to be Assistant Secretary of Defense (Comptroller). He was confirmed by the United States Senate on 31 July, 1980.

Born in 1929, in Portland, Oregon, he received a B.A. degree in mathematics from Oregon State University in 1951. This was followed by an M.A. (1952) in mathematics and a Ph.D. (1959) in mathematical statistics from the University of Oregon.

He assumed the position of Provost and Academic Dean at the Naval Postgraduate School in 1974. Prior to that he was Professor and Chairman of the Department of Operations Research and Administrative Science at the Naval Postgraduate School.

Dr. Borsting is Past President of the Operations Research Society of America (ORSA). He is Honorary Treasurer of the International Federation of Operations Research Societies, and previously held the office of ORSA's liaison representative to the International Federation of Operations Research Societies. Previously he held other positions with ORSA including Secretary and Council Member. He is also a Past President of the Military Operations Research Society and is a Fellow at the American Association for the Advancement of Science.



# COMPTROLLER WORKSHOPS BY SERVICE

NEWS AND VIEWS FROM THE SENIOR COMPTROLLERS OF THE  
ARMED SERVICES



**LTG RICHARD L. WEST**  
Comptroller of the Army



**RADM S. D. FROST**  
Comptroller of the Navy



**MR. JOSEPH P. POPPLE**  
Deputy Comptroller of the Air Force



**MR. E. THOMAS COMSTOCK**  
Fiscal Director  
U. S. Marine Corps



**CAPT WILLIAM F. MERLIN**  
Deputy Comptroller  
U. S. Coast Guard

# WORKSHOPS

## 1. PROFESSIONAL DEVELOPMENT OF THE MANAGER



**DR. ROBERT R. RODMAN**  
OSD (C), BANKING

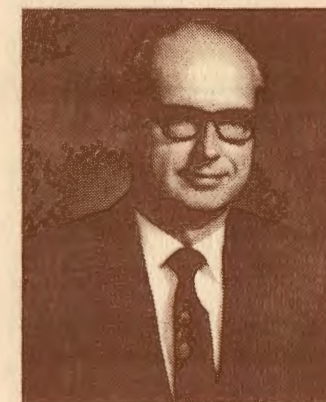


**MR. LAWRENCE O. MANN**  
Dir., Ofc. of Career Management  
Navy Acctg. & Fin. Center

Mr. Rodman has extensive experience in civilian career development with the Comptroller Offices of both the Navy and Air Force. In his present position he provides liaison with the financial management education community at service schools throughout DOD. Mr. Mann has over twenty-seven years with DOD in Education, Training and Career Development as an instructor, advisor, writer, analyst and administrator.

## 2. COST ANALYSIS IN TUNE WITH THE TIMES

**MR. WAYNE M. ALLEN**  
Dir. of Cost Analysis  
Office of the  
Comptroller of the Army



Mr. Allen received his BS from Texas A&M University and his MS from the U.S. Air Force Institute of Technology. He is currently the Director of Cost Analysis in the Office of the Comptroller of the Army. He previously served as Assistant to the Safeguard System Manager for Cost Analysis and as a project leader and management consultant for the Institute for Defense Analyses and Stanford Research Institute.



# WORKSHOPS

## 3. WORKING IN HARMONY WITH NON-APPROPRIATED FUND INTERNAL AUDITOR - VIEWED BY THE INDEPENDENT AUDITOR



**MR. MELVIN CHERNOW**  
Alexander Grant & Co.

Mr. Chernow received his degree in Business Administration from the Baltimore College of Commerce. Prior to entering the field of public accounting, Mr. Chernow spent several years as an internal auditor of non-appropriated funds for the Air Force Inspector General's Office. He is a partner with the Washington, D. C. office of Alexander Grant & Company and has more than 20 years experience in public accounting. He is responsible for directing audits for clients in a wide range of industries including non-appropriated fund activities.

## 4. MANAGEMENT REVIEW OF AN EXISTING FINANCIAL MANAGEMENT SYSTEM-A USER'S PERSPECTIVE

**MR. RICHARD B. WILLETT**  
Alexander Grant & Co.



Mr. Willett graduated magna cum laude with a Bachelor of Arts degree in Economics from St. Mary's College in Minnesota. He has done additional work in Economics at Columbia University and in Finance and Accounting at the University of Maryland.

Mr. Willett is a partner and head of the Government Services Office of Alexander Grant & Company in Washington, D. C. He has over fifteen years of experience in the evaluation, design, implementation, operations, and management of financial and administrative management systems. Mr. Willett's special expertise is in the areas of government financial reporting, budgeting, payroll/personnel, and purchasing systems.

# WORKSHOPS

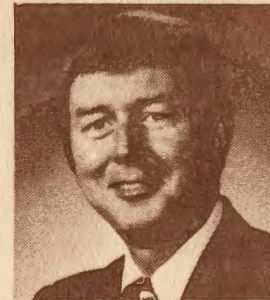
## 5. VISUALS GIVE LIFE AND MEANING TO FINANCIAL MANAGEMENT PROGRAMS



**MR. KENNETH L. BRENNER**  
Visual Products Division of 3M Company

Mr. Brenner for the past 22 years has been involved in the distribution of 3M graphic arts products. His most recent assignment has been as Account Executive covering the military government market.

## 6. HOW TO GET MORE OUT OF DATA PROCESSING



**MR. RICHARD C. LAVELLE**



**MR. MICHAEL E. SIMON**



**MR. J. P. LAWRENCE**



**MR. JOHN E. KINDT**

These four partners of the Arthur Andersen & Company, Administrative Services Division have an impressive tally of experience in the design, installation, management and operational control of large-scale computer systems in government, military and industry.



# 1981 NATIONAL PROFESSIONAL DEVELOPMENT INSTITUTE

## PROFESSIONAL COMPTROLLERSHIP—GATEWAY TO MISSION EFFECTIVENESS

### WEDNESDAY, 27 MAY, 1981

1300-1530 COMPTROLLER WORKSHOP BY SERVICE  
ARMY ..... LTG Richard L. West  
NAVY ..... RADM S. D. Frost  
AIR FORCE ..... Mr. Joseph P. Popple  
MARINE CORPS .. Mr. E. Thomas Comstock  
COAST GUARD .. CAPT William F. Merlin

1530-1545 BREAK

1545-1700 NATIONAL MEETING  
Mr. E. Rosen, National President

1730-1830 GET TOGETHER  
HOST: St. Louis Gateway Chapter

1930- LACLEDES LANDING

### THURSDAY, 28 MAY, 1981

0800-0815 ASSEMBLE

0815-0830 FLAG CEREMONY AND INVOCATION  
Colors Presented by Color Guard  
  
Invocation by  
Major Larry Wedel, Chaplain  
U.S. Army Troop Support and Aviation Materiel  
Readiness Command

0830-0855 WELCOME  
Chapter President — Mr. Wayne Wiskow  
Military Commander— LTG Thomas M. Ryan  
Vice Commander in Chief  
Military Airlift Command  
  
National President —Mr. E. Rosen

0900-0945 KEYNOTE ADDRESS  
"CREATIVITY AND INNOVATION"  
Dr. Herbert True

0945-1015 BREAK

1015-1230 WORKSHOPS

1230-1430 LUNCHEON AND SPEAKER  
Professor Alice Bante  
Meramec Community College

1500-1700 WORKSHOPS (Same as A.M.)

1900- AN EVENING ON OLE MISS

### FRIDAY, 29 MAY, 1981

0800-0900 SPEAKER  
"THE REAGAN TRANSITION"  
Mr. Chris Wallace  
NBC News Correspondent

0900-1000 SPEAKER  
Mr. Lawrence Kudlow  
Assistant Director — Economic Policy, OMB

1000-1015 BREAK

1015-1215 WORKSHOPS

1230-1430 LUNCHEON AND SPEAKER  
Mr. Arthur Zeikel  
Merrill, Lynch, Pierce, Fenner and Smith

1500-1700 WORKSHOPS (Same as A.M.)

1800-1845 SOCIAL

1845- AWARDS BANQUET  
SPEAKER — Dr. Jack Borsting  
Comptroller, DOD

### SATURDAY, 30 MAY, 1981

0815-0830 CLOSING CEREMONY



# WORKSHOPS

## 7. BUDGET EXECUTION



**MR. CLYDE O. GLAISTER**  
Director For Programs and Financial Control  
OSD (C)

Mr. Glaister attended public schools in Vandergrift, Pennsylvania and LaSalle and American Universities. He began his career in government with the U.S. Air Force Headquarters staff in 1954. Since 1961 he has served in the Office of the Secretary of Defense, returning to the Air Force for a short period in 1965 and 1966. In 1967 he rejoined the OSD Comptroller staff as a program analyst initially concentrating his efforts on the Five Year Defense Program. In 1974 he was appointed Deputy Director and in 1976 appointed Director for Program and Financial Control.

## 8. LEARN TO LISTEN -- FOR BETTER FINANCIAL MANAGEMENT

**DR. DIANA WHITNEY**  
Sperry - Univac



Dr. Whitney received her B.A., M.A., and Ph.D. degrees from Temple University. Her Ph.D. was earned in the field of Organizational Communications. She has served on the faculties of Temple University, Antioch College and West Chester State College.

# WORKSHOPS

## 9. PROJECT MANAGEMENT -- AN EARLY WARNING SYSTEM



**MR. JAMES H. JONES**  
Arthur Andersen & Co.

Mr. Jones received his B.B.A. and M.A. from the University of Mississippi. He is a Partner in the Management Information Consulting Division in the Washington, D.C. office of Arthur Andersen & Co. He has over 15 years of experience in the design and installation of Contract/Project Management Systems.

## 10. TIME MANAGEMENT -- EXECUTIVE STRESS

**DR. CARL L. HARSHMAN**  
Assistant Dean  
School of Business and Administration  
St. Louis University



Dr. Harshman received his B.A. from Ohio State University, M.S. from Wright State University and Ph.D. from Ohio State University. He is currently Assistant Dean, School of Business and Administration, St. Louis University. Dr. Harshman has been very actively involved in professional activities including serving on many committees and boards plus writing many articles and papers.



# WORKSHOPS

## 11. ACCOUNTING-STANDARDS-GAO APPROVAL OF SYSTEMS-INTERNAL REVIEW

**MR. JOHN CREHAN**  
Director for Accounting Policy  
OSD (C)



Mr. Crehan holds a B.S. degree from Duquesne University and is a Certified Public Accountant. He was appointed Director for Accounting Policy in the Office for Assistant Secretary of Defense, Comptroller on 12 February, 1975. Prior to joining OSD, Mr. Crehan was with the Defense Contract Audit Agency, where he held various positions in Headquarters offices. He was Regional Manager of the New York Region, DCAA. He also served with the U.S. Army Audit Agency and a national firm of Certified Public Accountants.

## 12. PERSONAL CAPITAL PLANNING



**MR. MARCUS V. COLE**  
Personal Capital Planning Group  
Merrill, Lynch & Co.

Mr. Cole was graduated from Dartmouth College in 1951. The following three years were spent in the U.S. Air Force, then with McKinsey & Co. Inc., prior to starting his career in financial planning in 1961. Over the past twenty years, Mr. Cole advised highly paid professionals and corporate executives and business owners in all phases of financial planning, including estate planning, insurance, income tax planning and sheltering, investment strategies, etc. Currently he heads the marketing of personal financial plans in the North Central part of the United States as well as a portion of the Metropolitan New York area, for Personal Capital Planning Group, an independent subsidiary of Merrill, Lynch & Co.

# WORKSHOPS

## 13. OMB / OSD REVIEW PROCESS



**MR. JOHN R. QUETSCH**  
Principal Deputy  
OSD (C)

Mr. Quetsch graduated from the University of Notre Dame with a Bachelor of Arts Degree in political science in 1952. Except for 2 years in the Army, he has served continuously with the Department of Defense since that time. He was appointed to his present position of Principal Deputy Assistant Secretary of Defense (Comptroller) on September 2, 1976.

## 14. CAN THE 80'S PRODUCE ANYTHING NEW IN PRODUCTIVITY



**DR. JOSEPH A. McHUGH**  
Chairman, Department of Accounting & Finance  
University of Massachusetts - Boston

Dr. McHugh is Professor and Chairman of the Department of Accounting and Finance at the University of Massachusetts - Boston. After graduating from the College of the Holy Cross in 1954, he enlisted in the United States Air Force, spending 21 years in increasingly responsible positions within the Comptroller career field. In 1975, Dr. McHugh changed careers, becoming a full-time academic. He is an active consultant and lecturer, specializing in internal control and design and system analysis.



# WORKSHOPS

## 15. ECONOMICS OF DEFENSE



**LTC JAMES R. ANDERSON**

Lt Col James R. Anderson. Educated through the Air Force Institute of Technology at Michigan State and Florida State Universities. Colonel Anderson has a B.A. in Management, an M.S. in Labor Relations and a Ph.D. in Economics with major emphasis in Monetary Economics and Human Resources. A former faculty member of the United States Air Force Academy he is currently the Chief of Economics for Resource Management in the Professional Military Comptrollers School.

## 16. INTEGRATION OF ACCOUNTING DATA, BUDGET AND COST



**COL C. WAYNE PEDERSEN**  
Air Force Accounting & Finance Center

Col Pedersen entered the Air Force in 1960 after graduating from the University of Montana with a Bachelor's degree in Business Administration. He spent 4 years as a Data Automation Officer and then switched over to the Budget career field where he has spent 13 years. He also was an instructor for 3 years in ROTC at his alma mater.

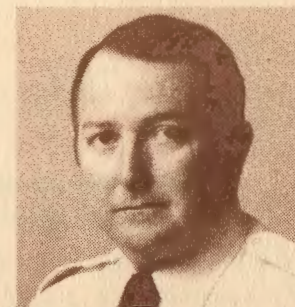
# WORKSHOPS

## 17. AN ENLISTED APPROACH TO FINANCIAL MANAGEMENT LEADERSHIP



**CMSgt ELMER L. BARNES**  
Executive to the Comptroller  
of the  
Air Force for Enlisted Matters

Chief Barnes received a B.S. degree from the University of Alabama. Prior to his current assignments in the financial management area. Chief Allen holds a B.S. degree from the University of Maryland and a B.A. degree from Park College. Chief Allen began his career as an administrative specialist in 1961 and then retrained into the Management Analysis Career field in 1967.



**CMSgt BAXTER L. ALLEN**  
Chief, Management Services &  
Requirements Division, MAC

## 18. FINANCE — PAYROLL — UPDATE OF JUMPS AND OTHER RELATED ITEMS



**MR. JAMES JASINSKI**  
Directorate for Accounting Policy  
OSD (C)

Mr. Jasinski attended the University of Virginia and holds a Master of Business Administration degree from the American University, Washington, D.C. His Government employment career includes assignments with Defense Logistics Agency, Defense Audit Service, and Office of the Secretary of Defense with the Directorate for Banking, International Finance and Professional Development, and presently in the Directorate for Accounting Policy. To present the status within the Services he will be assisted by:

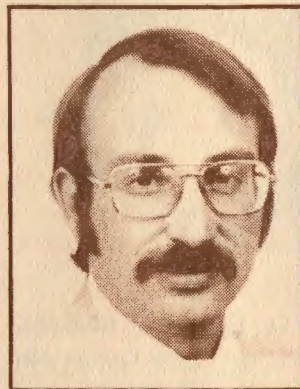
**LTC William Smith, U.S. Army**  
**CAPT John Hekman, SC, U.S. Navy**  
**LTC Joseph A. Pucci, U.S. Air Force**  
**CAPT William F. Morlin, U.S. Coast Guard**



# WORKSHOPS

## 19. DESIGN AND DEVELOPMENT OF NEW FINANCIAL SYSTEMS WITH AN EMPHASIS ON REQUIREMENTS

**MR. GORDON BRENNÉ**  
Alexander Grant & Co.



Mr. Brenne received a Bachelor of Science degree in Accounting from the University of Illinois and a Master of Business Administration degree in Quantitative Business Analysis from the University of Southern California. He is a manager in the Government Services Office of Alexander Grant & Company in Washington, D.C. and has over seven years of experience in management consulting with special expertise in the design of accounting, budgeting, and management information systems for the public sector, as well as for commercial clients.

## 20. OPERATIONAL AUDITS



**MR. KENTON B. HANCOCK**  
Auditor General of the Navy

Overviews of internal auditing in the military service: organization, mission, staffing and functions as well as the categories and types of audits. This top DOD auditor will also discuss his services' initiatives and objectives for the 80's

# SPECIAL EVENTS

## WEDNESDAY EVENING, 27 MAY, 1981

5:30 — 6:30 GET TOGETHER — SHERATON HOTEL  
St. Louis Gateway Chapter — Host

7:30 — 11:30 LACLEDE'S LANDING  
An unstructured, Get Acquainted Evening. Historic, renovated 22½ acre, 9-block area comprised of captivating night spots offering tantalizing food for all tastes, live dixieland jazz, folk and rock music and, of course, quiet corners for cocktails and conversation.

Buses will transport guests from the Sheraton to Laclede's Landing on a continuous basis.

## THURSDAY EVENING, 28 MAY, 1981

6:30 — 8:00 AN EVENING ON THE OLE MISS  
Ride down the Mississippi River to the accompaniment of jazz music.

The evening will commence with a wine and cheese reception in the Old Courthouse of St. Louis which was built in 1845. The Building's dome is the forerunner of similar ones on capitol buildings throughout the land and predates that of the Nation's Capitol by 2 years.

The evening will continue with a leisurely ride down the Mississippi on two 19th-Century-era steamboats anchored together, a sit-down-meal, cash bar and banjo strumming to add to the festivities.

Transportation will be provided.



# SPOUSES ACTIVITIES

**THURSDAY, 28 MAY, 1981**

- 8:45 – 9:20 a.m. GET ACQUAINTED COFFEE -  
Hospitality Room - Sheraton
- 9:30 – 4:00 p.m. ST. LOUIS NOW-AND-THEN TOUR  
Featuring:  
St. Louis Riverfront  
Campbell House  
DeMenil Mansion  
Luncheon: Carriage House - DeMenil Mansion  
(Sponsored by St. Louis Gateway Chapter)  
Shaw's Garden  
Forest Park  
St. Louis New Cathedral

**FRIDAY, 29 MAY, 1981**

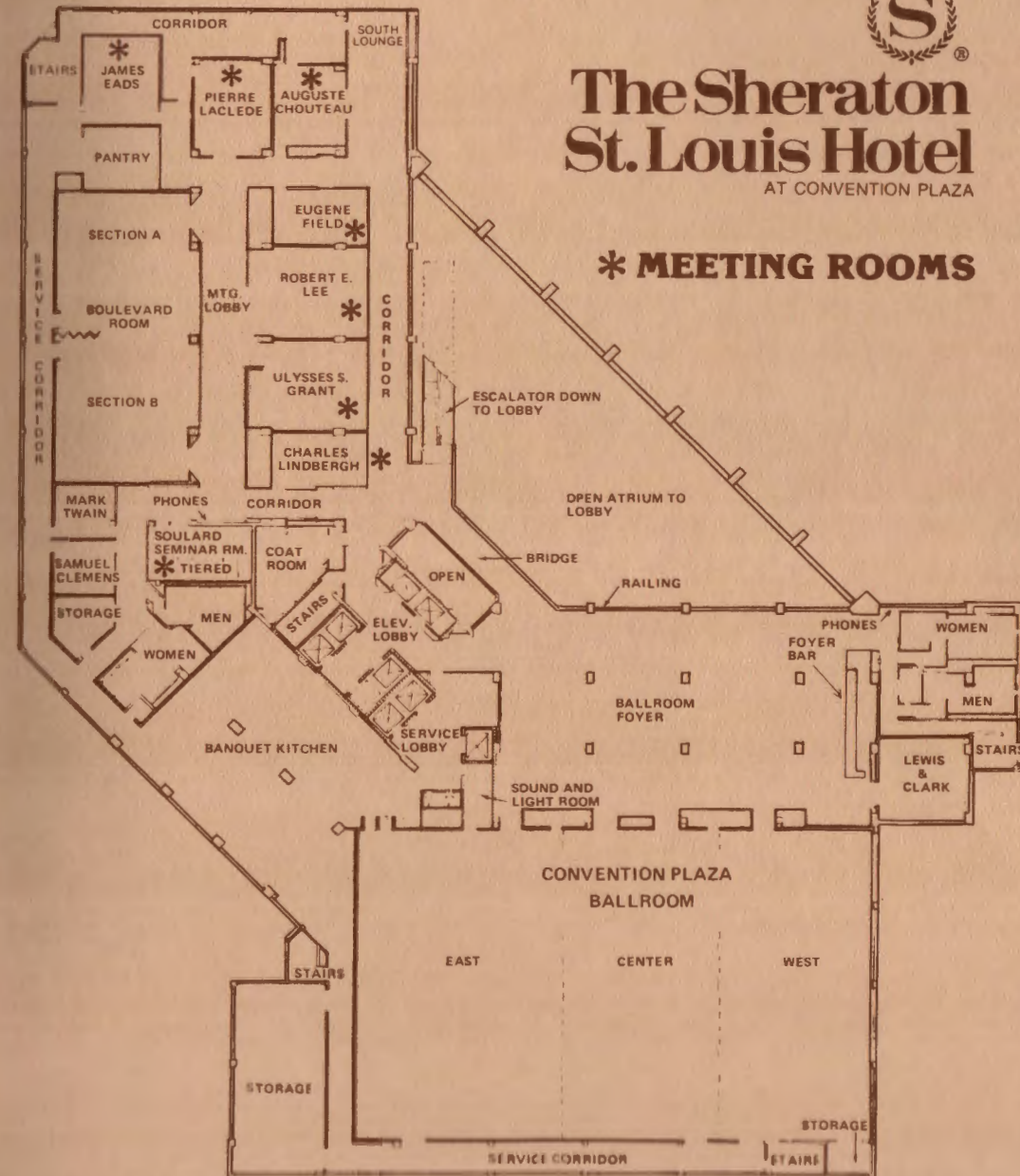
- 9:00 – 3:00 p.m. FASHIONS AND FUN  
Featuring:  
Plaza Frontenac  
Continental Breakfast and Fashion Demonstration  
(Accessories)  
Luncheon: Plaza Frontenac - at one of the following  
restaurants of your choice (Cost not included)  
Magic Pan (Crepes); Pasta House; The Stage (New  
York Deli); Zodiac Room (Neiman Marcus Tea Room);  
or Fanny's (Salads and Sandwiches).  
Bardenheier's Winery

# HOTEL FLOORPLAN



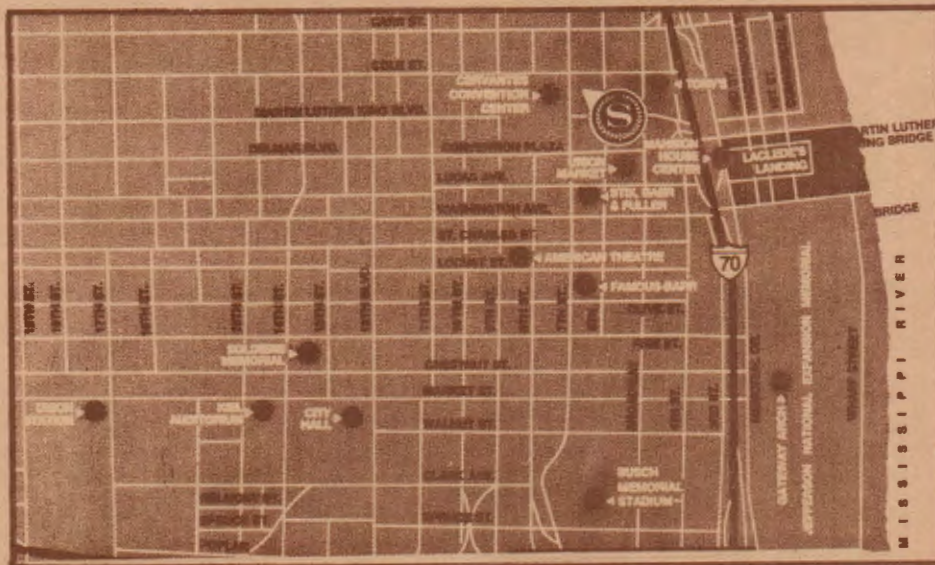
**The Sheraton  
St. Louis Hotel**  
AT CONVENTION PLAZA

**\* MEETING ROOMS**





# ST. LOUIS AREA MAP



## Sheraton-St. Louis Hotel

AT CONVENTION PLAZA  
SHERATON HOTELS & INNS, WORLDWIDE  
910 NORTH SEVENTH STREET, ST. LOUIS, MISSOURI 63101 314/231-5100

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### SPECIAL ACKNOWLEDGEMENT TO

**MERRILL, LYNCH, PRICE, FENNER & SMITH**

**Clayton Missouri Office**



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**SHANAHAN'S GRAPHIC ART STUDIO, UNIVERSITY CITY, MISSOURI**





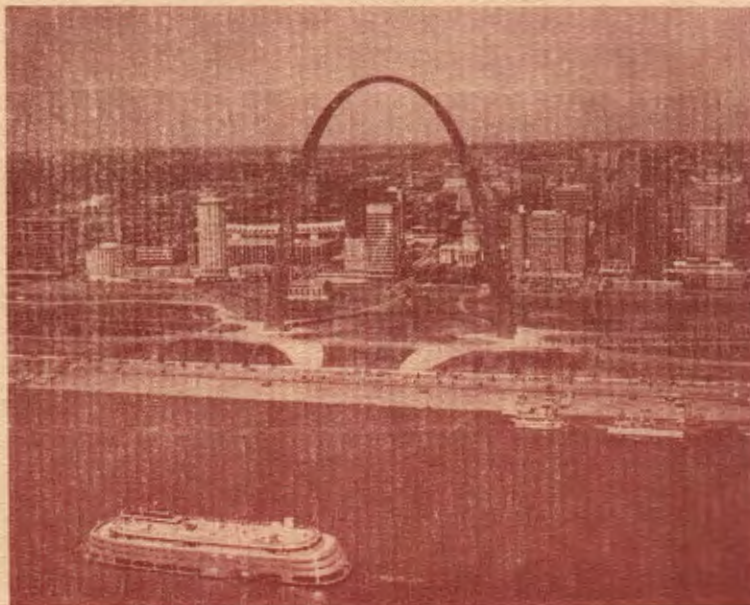
1981  
ASMC  
PROFESSIONAL  
DEVELOPMENT  
INSTITUTE

"Professional Comptrollership  
— Gateway to Mission  
Effectiveness"

---

Annual Awards Banquet

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MAY 29, 1981

Sheraton St. Louis Hotel • St. Louis, Missouri



THE WHITE HOUSE

WASHINGTON

May 13, 1981

I am delighted to send greetings to the officers and members of the American Society of Military Comptrollers on the occasion of your annual Professional Development Institute.

Your work within the defense community allows you a unique opportunity to lead the way in improved financial management procedures and practices, thus helping the United States to achieve full value for every defense dollar spent. You have my strong support for your efforts to promote the professional development of military and civilian personnel in the field of military comptrollership. I will count on your 7,500 members to play a key role in helping to assure the wisest possible allocation of Defense Department resources.

Best wishes for a successful and professionally rewarding meeting.

Ronald Reagan



# American Society of Military Comptrollers 1981 NATIONAL AWARD WINNERS

## COMPTROLLER

*Distinguished Performance*  
MAJ Joseph E. Botta

*Meritorious Performance*  
LTC Stephen R. Farris

*Commendable Performance*  
Mr. Donald J. Searl

## ACCOUNTING & FINANCE

*Distinguished Performance*  
Mr. Rodney D. Mundy

*Meritorious Performance*  
A1C Nancy M. Gillian

*Commendable Performance*  
MAJ(P) Barry S. Baer

## AUDITING

*Distinguished Performance*  
CAPT Lawrence A. Tomei

*Meritorious Performance*  
Mr. Edward S. Crowson

*Commendable Performance*  
Mr. James C. Dunbar

## BUDGETING

*Distinguished Performance*  
MAJ Rodney W. Wood

*Meritorious Performance*  
CDR Peter W. Blondin

*Commendable Performance*  
SMSGT Thomas E. Tell

## ECONOMIC ANALYSIS

*Distinguished Performance*  
CPT Steven B. Morris

*Meritorious Performance*  
Mr. George C. Monser

*Commendable Performance*  
1LT Roger D. McCleskey

## EDUCATION, TRAINING & CAREER DEVELOPMENT

*Distinguished Performance*  
Mr. Gerald J. Hasbargen

*Meritorious Performance*  
CPT Michael F. Hammerle

*Commendable Performance*  
TSGT Terry L. Burden

## AUTOMATIC DATA PROCESSING

*Distinguished Performance*  
LCDR William B. Haskett

*Meritorious Performance*  
CPT Eugene C. Gilpin

*Commendable Performance*  
SSGT Dennis E. Miller

## PROGRAM EVALUATION

*Distinguished Performance*  
Mr. Larry Phillips

*Meritorious Performance*  
Ms. Catherine W. Wright

*Commendable Performance*  
Mr. Loren L. Miller, III

## MANAGEMENT ANALYSIS

*Distinguished Performance*  
LTC Samuel K. Wasaff, Jr.

*Meritorious Performance*  
Ms. Ellen M. Mauritz

*Commendable Performance*  
2LT Larry O. Spencer

## RESOURCES MANAGEMENT

*Distinguished Performance*  
Mr. Lawrence E. Lavoie

*Meritorious Performance*  
Mr. Bernhardt K. Kintrup

*Commendable Performance*  
COL Richard G. Huber

## OUTSTANDING AUTHORS

B. Y. Auger

John Scott Hoff

Edward J. Migliore



# NATIONAL PRESIDENT'S AWARD



**WILLIAM M. LYNN, JR.**

Major General, USA(Ret)

1981

---

## CHAPTER COMPETITION PROGRAM

<i>Chapter Group</i>	<i>Number of Members</i>		<i>Chapter</i>
Group A-1	351 or more	1st Place	Washington Chapter
Group A	101 to 350	1st Place	Anchorage Chapter
		2nd Place	Alamo City Chapter
Group B	51 to 100	1st Place	New Orleans Chapter
		2nd Place	Dixie Chapter
Group C	50 or less	1st Place	Camp Lejeune Chapter
		2nd Place	Montgomery Chapter

## MEMBERSHIP AWARDS

Established Chapter Absolute Growth	Alamo City Chapter
Established Chapter Percentage Growth	West Point Chapter
Individual National First Place	CMS E. Barnes
Individual National Second Place	Martha B. Renno
	LTC Grant L. Fredricks



MEMORANDUM  
OF CALL

TO:

*Maiselle*

☒ YOU WERE CALLED BY—

☐ YOU WERE VISITED BY—

*Col. Edmonde American*

OF (Organization)

*Society of Military*

☐ PLEASE CALL

PHONE NO.

CODE/EXT.

*780-6164*

☐ FTS

☐ WILL CALL AGAIN

☐ IS WAITING TO SEE YOU

☐ RETURNED YOUR CALL

☐ WISHES AN APPOINTMENT

MESSAGE

*Re: He requested by letter dated March 16 - Greetings from the President. He would like to know if you received the letter of request & the status*

RECEIVED BY

*H.*

DATE

*5/6*

TIME

*9:45*

63-109

U.S. G.P.O. 1980-311-156/16

STANDARD FORM 63 (Rev. 8-76)  
Prescribed by GSA  
FPMR (41 CFR) 101-11.6



Greetings + economic 12<sup>th</sup>  
policy -  
Increased productivity.

Association of Government  
Accountants -





# American Society of Military Comptrollers

NATIONAL HEADQUARTERS  
P.O. BOX 91  
MT. VERNON, VIRGINIA 22121  
(703) 780-6164

## NATIONAL OFFICERS

### PRESIDENT

Mr. E. Rosen, OSD

### VICE PRESIDENTS

Mr. John R. Vaughn, DMA

RADM S. D. Frost, SC, USN

BG Richard D. Murray, USAF

BG Roger J. Price, USA

Mr. Eugene J. Regan, USMC

CAPT W. F. Merlin, USCG

### SECRETARY

Ms Peggy Wright, OSD

### TREASURER

CAPT G. M. Nichols, SC, USN

### GENERAL COUNSEL

Mr. Joseph P. Murphy, USA

### EXECUTIVE DIRECTOR

COL E. W. Edmonds, Jr.

USAF (Ret)

March 16, 1981

Mr. Morton Blackwell  
Special Assistant to the President  
Office of Public Liaison  
Room 128, Old Executive Office Building  
Washington, D.C. 20500

Dear Mr. Blackwell,

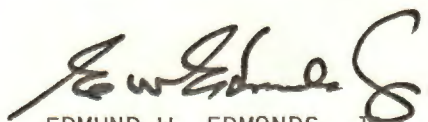
The American Society of Military Comptrollers will hold its annual Professional Development Institute in May of this year. ASMC is an organization of over 7,500 dedicated military and civilian comptrollers and personnel engaged in functions such as productivity, cost effectiveness, cost analysis, budget and finance and data processing. Our organization is made up of those individuals who not only formulate policy for financial management within the Defense Department but those actual personnel who carry out these programs.

We would be pleased if allowed to publish in our program and professional magazine a picture of the President and greetings from him. We plan to use the picture and letter in the spring issue of our ARMED FORCES COMPTROLLER magazine, as well as in the program to be used at the Professional Development Institute. A copy of our magazine and some facts concerning the American Society of Military Comptrollers is attached.

If possible, we would appreciate the photograph and letter no later than April 5th so that printing deadlines can be met.

If I can be of further help, my telephone number is (703) 780-6164.

Sincerely yours,

  
EDMUND W. EDMONDS, JR.  
Executive Director

EWE/je

*People who deal with Defense Dept. money*

*Please draft*



File

May 13, 1981

I am delighted to send greetings to the officers and members of the American Society of Military Comptrollers on the occasion of your annual Professional Development Institute.

Your work within the defense community allows you a unique opportunity to lead the way in improved financial management procedures and practices, thus helping the United States to achieve full value for every defense dollar spent. You have my strong support for your efforts to promote the professional development of military and civilian personnel in the field of military comptrollership. I will count on your 7,500 members to play a key role in helping to assure the wisest possible allocation of Defense Department resources.

Best wishes for a successful and professionally rewarding meeting.

Sent to: Mr. Edmund W. Edmonds, Jr.  
Executive Director  
American Society of  
Military Comptrollers  
Post Office Box 91  
Mt. Vernon, VA 22121

Encl: 8x10 glossy photo

TO MORTON BLACKWELL WHEN SIGNED

RR:Silverman:ms--

cc: H.von Damm/T.Silverman/E.Hickey/M.Blackwell/CF

DUE: MAY 12

Draft info provided by DOD  
ay





# American Society of Military Comptrollers

NATIONAL HEADQUARTERS  
P.O. BOX 91  
MT. VERNON, VIRGINIA 22121

August 1, 1981

Ms Cathy Christianson  
Office of Public Liaison  
Room 128, Old Executive Office Bldg  
Washington, DC 20500

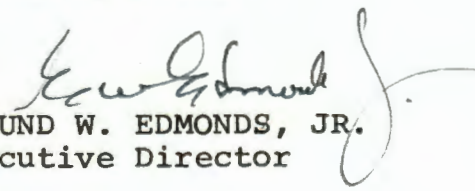
Dear Ms Christianson,

The 1981 ASMC Professional Development Institute held in St. Louis was an outstanding success due in large part to your participation. On behalf National Council I want you to know how much we and the members of the Society appreciate your help.

Enclosed is a special issue of our Summer magazine, the ARMED FORCES COMPTROLLER, which contains some pictures and articles from the Institute.

Thank you!

Sincerely yours,

  
EDMUND W. EDMONDS, JR.  
Executive Director